



# Investment Funds and Investment Managers

## Corporate Tax Guide | CTGIFM1

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## Contents

<b>1. Glossary .....</b>	<b>4</b>
<b>2. Introduction .....</b>	<b>10</b>
2.1. Overview .....	10
2.2. Purpose of this guide .....	10
2.3. Who should read this guide? .....	10
2.4. How to use this guide .....	10
2.5. Legislative references .....	11
2.6. Status of this guide.....	12
<b>3. What are investment funds and investment managers?     14</b>	
3.1. Investment funds landscape in the UAE .....	15
3.2. Rationale for exempting Qualifying Investment Funds.....	16
<b>4. Investment Funds and the Corporate Tax Law .....</b>	<b>18</b>
4.1. Corporate Tax treatment of investment funds.....	18
4.1.1. Treatment of investment fund entities that are Resident Persons.....	18
4.1.2. Treatment of investment fund entities that are Unincorporated Partnerships .	18
4.1.3. Treatment of non-resident investment funds .....	19
4.2. Treatment for investment managers.....	20
4.3. Overview of Qualifying Investment Fund status.....	20
4.3.1. Impact of Qualifying Investment Fund status .....	20
4.4. Treatment of investors in a Qualifying Investment Fund .....	21
4.4.1. Inclusion of the fund's net income in the income of investors .....	21
4.4.2. Allocation of income between Exempt Income, Interest income, income from Immovable Property in the UAE and other income .....	23
4.4.3. Time apportionment of income.....	30
4.4.4. Treatment of distributions.....	31
4.4.5. Application of other Corporate Tax provisions.....	33
4.4.6. Treatment of Exempt Persons held by Qualifying Investment Funds .....	34
4.4.7. Impact of ceasing to be part of a Qualifying Group .....	34
4.4.8. Impact of leaving a Tax Group or causing a Tax Group to cease to exist.....	35
4.4.9. Impact on relief for Tax Losses .....	36
<b>5. Conditions for being a Qualifying Investment Fund.....</b>	<b>37</b>



5.1. Overview .....	37
5.1.1. Persons eligible for Qualifying Investment Fund status .....	38
5.1.2. Impact of not meeting the conditions in later Tax Periods .....	39
5.2. Regulatory oversight condition .....	40
5.3. Fund ownership condition .....	42
5.4. Main purpose condition .....	42
5.5. Investment Business condition .....	43
5.5.1. Meaning of Investment Business .....	43
5.5.2. Distinction between Business of the Investment Manager and the Investment Business.....	43
5.5.3. Examples of other activities treated as Investment Business .....	44
5.5.4. Ancillary or incidental Business Activities.....	46
5.5.5. Application to feeder funds.....	47
5.6. Diversity of ownership condition .....	49
5.6.1. Overview.....	49
5.6.2. Application of condition on indirect ownership.....	49
5.6.3. Application to feeder funds.....	51
5.6.4. Application to parallel funds .....	53
5.6.5. Application during the first years of an investment fund .....	54
5.7. Investment Manager condition .....	55
5.8. Independence condition .....	56
5.9. Additional conditions applicable to REITs.....	57
5.9.1. REIT minimum real estate asset value condition.....	57
5.9.2. REIT ownership condition: Recognised Stock Exchange and Institutional Investor .....	57
5.9.3. REIT real estate percentage condition .....	59
5.10. Conditions for Exempt Person status for entity held by a Qualifying Investment Fund .....	60
5.10.1. Overview.....	60
5.10.2. Juridical person incorporated in the UAE .....	61
5.10.3. Wholly owned and controlled by Qualifying Investment Funds.....	62
<b>6. Corporate Tax compliance requirements .....</b>	<b>64</b>
6.1. Applying for Qualifying Investment Fund exemption.....	64
6.2. Earliest date an application can be effective .....	64
<b>7. Investment Manager Exemption .....</b>	<b>65</b>



7.1. Overview .....	65
7.2. Impact of not meeting the Investment Manager Exemption .....	66
7.3. Investment management or brokerage services condition .....	67
7.3.1. Investment managers services .....	67
7.3.2. Brokerage services .....	68
7.4. Regulatory oversight condition .....	69
7.5. Ordinary course of Business condition .....	69
7.6. Independent capacity condition .....	70
7.7. Arm's length condition .....	71
7.8. No other representation relation condition .....	73
7.9. Other conditions .....	74
<b>8. Updates and Amendments .....</b>	<b>75</b>



## 1. Glossary

**AED:** The United Arab Emirates Dirham.

**Authority:** Federal Tax Authority.

**Bank:** A Person licensed in the UAE as a bank or finance institution or an equivalent licensed activity that allows the taking of deposits and the granting of credits as defined in the applicable legislation of the UAE.

**Business:** Any activity conducted regularly, on an ongoing and independent basis by any Person and in any location, such as industrial, commercial, agricultural, vocational, professional, service or excavation activities or any other activity related to the use of tangible or intangible properties.

**Business Activity:** Any transaction or activity, or series of transactions or activities, conducted by a Person in the course of its Business.

**Business Restructuring Relief:** A relief from Corporate Tax for Business restructuring transactions, available under Article 27 of the Corporate Tax Law and as specified under Ministerial Decision No. 133 of 2023.

**Control:** The direction and influence over one Person by another Person in accordance with the conditions of Article 35(2) of the Corporate Tax Law.

**Corporate Tax:** The tax imposed by the Corporate Tax Law on juridical persons and Business income.

**Corporate Tax Law:** Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments.

**Dividend:** Any payments or distributions that are declared or paid on or in respect of shares or other rights participating in the profits of the issuer of such shares or rights which do not constitute a return on capital or a return on debt claims, whether such payments or distributions are in cash, securities, or other properties, and whether payable out of profits or retained earnings or from any account or legal reserve or from capital reserve or revenue. This will include any payment or benefit which in substance or effect constitutes a distribution of profits made in connection with the acquisition or redemption or cancellation of shares or termination of other ownership interests or rights or any transaction or arrangement with a Related Party or Connected Person which does not comply with Article 34 of the Corporate Tax Law.



**Double Taxation Agreement:** An international agreement signed by two or more countries for the avoidance of double taxation and the prevention of fiscal evasion on income and capital.

**Exempt Income:** Any income exempt from Corporate Tax under the Corporate Tax Law.

**Exempt Person:** A Person exempt from Corporate Tax under Article 4 of the Corporate Tax Law.

**Federal Government:** The government of the UAE.

**Financial Year:** The Gregorian calendar year, or the twelve-month period for which the Taxable Person prepares Financial Statements.

**Foreign Partnership:** A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the laws of a foreign jurisdiction.

**Foreign Permanent Establishment:** A place of Business or other form of presence outside the UAE of a Resident Person that is determined in accordance with the criteria prescribed in Article 14 of the Corporate Tax Law.

**Foreign Tax Credit:** Tax paid under the laws of a foreign jurisdiction on income or profits that may be deducted from the Corporate Tax due, in accordance with the conditions of Article 47(2) of the Corporate Tax Law.

**Free Zone:** A designated and defined geographic area within the UAE that is specified in a decision issued by the Cabinet at the suggestion of the Minister.

**Free Zone Person:** A juridical person incorporated, established, or otherwise registered in a Free Zone, including a branch of a Non-Resident Person registered in a Free Zone.

**FTA:** Federal Tax Authority, being the Authority in charge of administration, collection and enforcement of federal taxes in the UAE.

**Government Controlled Entity:** Any juridical person, directly or indirectly wholly owned and controlled by a Government Entity, as specified in a decision issued by the Cabinet at the suggestion of the Minister.



**Government Entity:** The Federal Government, Local Governments, ministries, government departments, government agencies, authorities and public institutions of the Federal Government or Local Governments.

**Immovable Property:** Means any of the following:

- a. Any area of land over which rights or interests or services can be created.
- b. Any building, structure or engineering work attached to the land permanently or attached to the seabed.
- c. Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

**Insurance Provider:** A Person licensed in the UAE as an insurance provider that accepts risks by entering into or carrying out contracts of insurance, in both the life and non-life sectors, including contracts of reinsurance and captive insurance, as defined in the applicable legislation of the UAE.

**Interest:** Any amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic financial instrument and other payments economically equivalent to interest, and any other amounts incurred in connection with the raising of finance, excluding payments of the principal amount.

**International Agreement:** Any bilateral or multilateral agreement, or any other agreement to which the UAE is a party, that has been ratified by the parties.

**Investment Business:** The issuing of investment interests to raise funds or pool investor funds or establish a joint investment fund with the aim of enabling the holder of such an investment interest to benefit from the profits or gains resulting from the entity's acquisition, holding, management or disposal of investments, in accordance with the applicable legislation of the UAE.

**Investment Manager:** A Person who provides brokerage or investment management services that is subject to the regulatory oversight of the competent authority in the UAE.

**Investment Manager Exemption:** The treatment of an Investment Manager as an independent agent of a Non-Resident Person, available under Article 15 of the Corporate Tax Law.

**Licence:** A document issued by a Licensing Authority under which a Business or Business Activity is conducted in the UAE.



**Licensing Authority:** The competent authority concerned with licensing or authorising a Business or Business Activity in the UAE.

**Local Government:** Any of the governments of the Member Emirates of the Federation.

**Market Value:** The price which could be agreed in an arm's-length free market transaction between Persons who are not Related Parties or Connected Persons in similar circumstances.

**Net Interest Expenditure:** The Interest expenditure amount that is in excess of the Interest income amount as determined in accordance with the provisions of Article 30 of the Corporate Tax Law.

**Non-Resident Person:** The Taxable Person specified in Article 11(4) of the Corporate Tax Law.

**Parent Company:** A Resident Person that can make an application to the FTA to form a Tax Group with one or more Subsidiaries in accordance with Article 40(1) of the Corporate Tax Law.

**Participating Interest:** An ownership interest in the shares or capital of a juridical person that meets the conditions referred to in Article 23 of the Corporate Tax Law.

**Participation:** The juridical person in which the Participating Interest is held.

**Participation Exemption:** An exemption from Corporate Tax for income from a Participating Interest, available under Article 23 of the Corporate Tax Law and as specified under Ministerial Decision No. 116 of 2023.

**Permanent Establishment:** A place of Business or other form of presence in the UAE of a Non-Resident Person in accordance with Article 14 of the Corporate Tax Law.

**Person:** Any natural person or juridical person.

**Personal Investment:** Investment activity that a natural person conducts for their personal account that is neither conducted through a Licence or requiring a Licence from a Licensing Authority in the UAE, nor considered as a commercial business in accordance with the Federal Decree-Law No. 50 of 2022.

**Qualifying Free Zone Person:** Free Zone Person that meets the conditions of Article 18 of the Corporate Tax Law and is subject to Corporate Tax under Article 3(2) of the Corporate Tax Law.





**Qualifying Group:** Two or more Taxable Persons that meet the conditions of Article 26(2) of the Corporate Tax Law.

**Qualifying Group Relief:** A relief from Corporate Tax for transfers within a Qualifying Group, available under Article 26 of the Corporate Tax Law and as specified under Ministerial Decision No. 132 of 2023.

**Qualifying Investment Fund:** Any entity whose principal activity is the issuing of investment interests to raise funds or pool investor funds or establish a joint investment fund with the aim of enabling the holder of such an investment interest to benefit from the profits or gains from the entity's acquisition, holding, management or disposal of investments, in accordance with the applicable legislation and when it meets the conditions set out in Article 10 of the Corporate Tax Law.

**Real Estate Asset Percentage:** The portion of the Real Estate Income generating assets as a percentage of the total value of the assets of the investment fund.

**Real Estate Gains:** Gains derived from the sale or disposal of land or real estate.

**Real Estate Income:** Income derived from renting of land or real estate, excluding Real Estate Gains.

**Real Estate Investment Trust ("REIT"):** A real estate fund as defined in the applicable legislation of the UAE.

**Recognised Stock Exchange:** Any stock exchange established in the UAE that is licensed and regulated by the relevant competent authority, or any stock exchange established outside the UAE of equal standing.

**Related Party:** Any Person associated with a Taxable Person as determined in Article 35(1) of the Corporate Tax Law.

**Resident Person:** The Taxable Person specified in Article 11(3) of the Corporate Tax Law.

**Revenue:** The gross amount of income derived during a Tax Period.

**State:** United Arab Emirates.

**State Sourced Income:** Income accruing in, or derived from, the UAE as specified in Article 13 of the Corporate Tax Law.



**Tax Group:** Two or more Taxable Persons treated as a single Taxable Person according to the conditions of Article 40 of the Corporate Tax Law.

**Tax Loss:** Any negative Taxable Income as calculated under the Corporate Tax Law for a given Tax Period.

**Tax Period:** The period for which a Tax Return is required to be filed.

**Tax Return:** Information filed with the FTA for Corporate Tax purposes in the form and manner as prescribed by the FTA, including any schedule or attachment thereto, and any amendment thereof.

**Taxable Income:** The income that is subject to Corporate Tax under the Corporate Tax Law.

**Taxable Person:** A Person subject to Corporate Tax in the UAE under the Corporate Tax Law.

**UAE:** United Arab Emirates.

**Unincorporated Partnership:** A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the applicable legislation of the UAE.

**Withholding Tax:** Corporate Tax to be withheld from State Sourced Income in accordance with Article 45 of the Corporate Tax Law.



## 2. Introduction

### 2.1. Overview

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (“Corporate Tax Law”) was issued on 3 October 2022 and was published in Issue #737 of the Official Gazette of the United Arab Emirates (“UAE”) on 10 October 2022.

The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits (“Corporate Tax”) in the UAE.

The provisions of the Corporate Tax Law apply to Tax Periods commencing on or after 1 June 2023.

### 2.2. Purpose of this guide

This guide is designed to provide general guidance to help persons understand the UAE Corporate Tax treatment for investment funds, investors, and investments with the assistance of Investment Managers. This guide explains some of the terms and conditions in the Corporate Tax Law, and sets out the following:

- an overview of the meaning of Qualifying Investment Fund and Investment Manager,
- conditions for a Qualifying Investment Fund to be exempt from Corporate Tax,
- conditions for a Real Estate Investment Trust (“REIT”) to be exempt from Corporate Tax,
- tax implications for an investor investing in a Qualifying Investment Fund,
- conditions for a foreign person to benefit from the Investment Manager Exemption as specified under Article 15 of the Corporate Tax Law, and
- relevant Corporate Tax compliance requirements for the above.

### 2.3. Who should read this guide?

Any Person seeking to apply either the exemption for Qualifying Investment Funds or the Investment Manager Exemption. This guide will be useful for investors, financial advisors, tax professionals, and individuals involved in managing or advising investment funds and provides insights into tax implications, exemptions, and regulations relevant to these entities.

### 2.4. How to use this guide

The relevant Articles of the Corporate Tax Law and the implementing decisions are indicated in each section of the guide.



It is recommended that the guide is read in its entirety to provide a complete understanding of the definitions and interactions of the different rules. Further guidance on some of the areas covered in this guide can be found in other topic-specific guides.

In some instances, simple examples are used to illustrate how key elements of the Corporate Tax Law apply to Qualifying Investment Funds and Investment Managers. The examples in the guide:

- show how these elements operate in isolation and do not show all the possible interactions with other provisions of the Corporate Tax Law that may occur. They do not, and are not intended to, cover the full facts of the hypothetical scenarios used nor all aspects of the Corporate Tax regime, and should not be relied upon for legal or tax advice purposes, and
- are only meant for providing the readers with general information on the subject matter of this guide. They are exclusively intended to explain the rules related to the subject matter of this guide and do not relate at all to the tax or legal position of any specific juridical or natural persons.

## 2.5. Legislative references

In this guide, the following legislation will be referred to as follows:

- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments, is referred to as the “Corporate Tax Law”,
- Federal Decree-Law No. 50 of 2022 Issuing the Commercial Transactions Law is referred to as “Commercial Transactions Law”,
- Cabinet Decision No. 49 of 2023 on Specifying the Categories of Businesses or Business Activities Conducted by a Resident or Non-Resident Natural Person that are Subject to Corporate Tax is referred to as “Cabinet Decision No. 49 of 2023”,
- Cabinet Decision No. 56 of 2023 on Determination of a Non-Resident Person’s Nexus in the State for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 56 of 2023”,
- Cabinet Decision No. 81 of 2023 on Conditions for Qualifying Investment Funds for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 81 of 2023”,
- Ministerial Decision No. 105 of 2023 on the Determination of the Conditions under which a Person may Continue to be Deemed as an Exempt Person, or Cease to be Deemed as an Exempt Person from a Different Date for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 105 of 2023”,
- Ministerial Decision No. 116 of 2023 on the Participation Exemption for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 116 of 2023”,



- Ministerial Decision No. 120 of 2023 on the Adjustments Under the Transitional Rules for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 120 of 2023”,
- Ministerial Decision No. 126 of 2023 on the General Interest Deduction Limitation Rule for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 126 of 2023”,
- Ministerial Decision No. 127 of 2023 on Unincorporated Partnership, Foreign Partnership and Family Foundation for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 127 of 2023”,
- Ministerial Decision No. 132 of 2023 on Transfers Within a Qualifying Group for the purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 132 of 2023”,
- Ministerial Decision No. 134 of 2023 on the General Rules for Determining Taxable Income for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 134 of 2023”,
- Federal Tax Authority Decision No. 7 of 2023 Provisions of Exemption from Corporate Tax for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 7 of 2023”, and
- Federal Tax Authority Decision No. 11 of 2023 Provisions of Exemption from Corporate Tax for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 11 of 2023”.

## 2.6. Status of this guide

This guidance is not a legally binding statement but is intended to provide assistance in understanding the provisions of the Corporate Tax Law. The information provided in this guide should not be interpreted as legal or tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every case. It is based on the legislation as it stands when the guide is published. Each Person’s own specific circumstances should be considered.

The Corporate Tax Law, the implementing decisions and the guidance materials referred to in this document will set out the principles and rules that govern the application of the Qualifying Investment Fund and Investment Manager Exemption rules. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.



### 3. What are investment funds and investment managers?

In broad terms, investment funds invest funds received from investors on a collective basis in accordance with a defined investment policy. In return, investors share in the profits of the investment fund.

An investment fund can consist of one or several entities. Any group of entities that aim to pool funds from investors to invest on a collective basis can be referred to as an “investment fund”. An investment fund can use the same type of corporate entities that are available to Businesses more generally, including joint liability companies, limited partnership companies, limited liability companies, public joint stock companies and private joint stock companies. Similarly, an investment fund could also use unincorporated partnerships or investment trusts. If an investment fund is incorporated in a Free Zone, it can similarly use the corporate entity types that are available in a Free Zone. In addition, an investment fund could include entities incorporated outside the UAE.

Investment funds commonly include marketable security funds, mutual funds, exchange-traded funds, money-market funds, hedge funds, private equity funds, and real estate funds. Investment funds may also be referred to as alternative investment funds that primarily invest in the specialist "non-traditional" asset classes.

Generally, an investor in an investment fund provides capital or assets to the fund with the aim of a return on investment. The investment fund uses this capital to make investments, undertake Business Activities, and generate profits or returns. Investors in an investment fund can include any range of persons, such as pension funds, sovereign wealth funds, endowment plans, family offices, natural persons, foundations, insurance companies and any other persons.

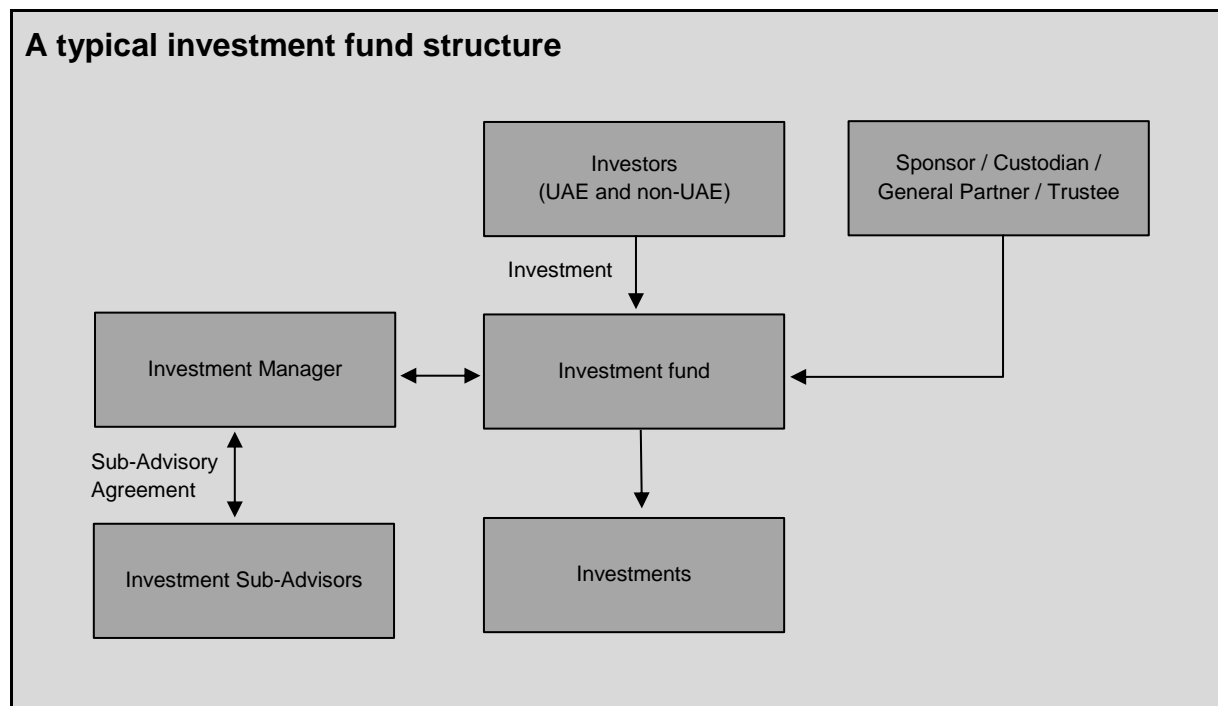
An investment fund may appoint an investment manager who will make investment decisions on behalf of the investment fund, in line with a pre-agreed investment policy and applicable investment procedures. Sometimes, all or a portion of those activities will be carried out by an investment advisor or a general partner. An investment manager or an investment advisor may also subcontract a portion of their activities to other group entities, usually called “investment subadvisors”. Similarly, some funds may also appoint a custodian, general partner or trustee, who holds certain assets on behalf of the fund or the investors or performs certain administrative tasks. In addition, an investment fund could have a dedicated sponsor which could be responsible for establishing and overseeing the fund.

If there is a main investment fund entity, investors will directly or indirectly hold a stake in the main investment fund entity. It is possible that investors hold their stake through one or several other entities, either wholly owned by them or as pooling vehicles with



other investors. If these holding vehicles are managed by the investment manager of the main investment fund entity, these vehicles could be regarded as feeder funds (or sometimes feeder entities) and would normally be regarded as investment fund entities.

The investment manager can receive income from its investment management activities through charging a pre-agreed management fee (for example, equivalent to a percentage of capital committed, capital invested or assets under management), a performance fee (for example, a portion of excess returns), or a co-investment (such as a carried interest investment).



### 3.1. Investment funds landscape in the UAE

Investment funds activity in the UAE reflects the broad range of financial investment products consistent with similar products available in global markets. UAE funds generally include:

- Public funds, which are available to the general public at large.
- Private funds, which are not accessible to the wider public. Private funds are only offered to professional investors.

Investment funds can be open-ended or close-ended. Open-ended investment funds have variable capital that increases according to the new issued units and decreases by the redemption of existing units. Close-ended investment funds have fixed capital whose units are redeemed only on the expiry of the fund, unless the relevant regulatory





authority approves an increase of its capital by new subscriptions or reduction of its capital by the existing units redeemed.

In addition, investment funds can be based on specific investment themes, specific underlying asset classes, or specific sectors. Private equity funds, venture capital funds, private credit funds, infrastructure funds, real estate funds, umbrella funds, money market funds, exchange traded funds, funds investing in crypto tokens, feeder funds, real estate investment trusts and debt funds are terms that usually refer to the type of assets the fund invests in the UAE. Hedge funds usually refer to funds with a specific type of trading strategy. Islamic funds usually refer to a joint pool wherein the investors contribute their surplus money for the purpose of its investment to earn halal profits in strict conformity with the precepts of Islamic Sharia.

In the investment fund industry, these and many other terms are used to refer to different types of investment funds. These terms may sometimes have a narrow technical meaning, but sometimes they do not have a fixed meaning and are used loosely. In the context of the Corporate Tax Law, the provisions of the Qualifying Investment Fund exemption and the Investment Manager Exemption are not restricted to a specific investment fund or strategy and can apply to any investment fund, where the relevant conditions are met.

### **3.2. Rationale for exempting Qualifying Investment Funds**

Investment funds generally allow investors of various sizes to benefit from investment opportunities that would otherwise only be available for investors with a certain scale, network or expertise, thereby creating a more even playing field for investors, which can stimulate economic growth and development.

The Corporate Tax Law seeks to ensure neutrality such that investors of an investment fund are in a similar Corporate Tax position as if they had invested directly in the underlying assets of the fund. It is internationally common for a tax system to provide for neutrality between direct investments and investment through collective investment vehicles by not subjecting the income of such entities to taxation or burdensome compliance obligations.

In line with this, investment funds that are structured as Unincorporated Partnerships will be treated as transparent for Corporate Tax purposes which generally achieves an outcome similar to one where the ultimate investor had invested directly. For investment funds that are not structured as Unincorporated Partnerships, a similar outcome can be achieved by exempting the investment fund from Corporate Tax as a Qualifying Investment Fund. This will prevent tax at the level of the investment fund and only the investors would be taxed on the investment returns.



In addition, investment funds play a crucial role in providing liquidity to financial markets by pooling funds from multiple investors and investing in a diversified portfolio of assets. A tax exemption can facilitate more efficient capital allocation and trading activities within financial markets, thereby enhancing overall market liquidity. It can also encourage innovation in financial products and services, as investment managers have more flexibility to structure investment vehicles that meet the diverse needs of investors. This can lead to the development of new investment strategies, products, and markets, fostering financial innovation and competitiveness.



## 4. Investment funds and the Corporate Tax Law

### 4.1. Corporate Tax treatment of investment funds

#### 4.1.1. Treatment of investment fund entities that are Resident Persons

In line with Article 11(3) of the Corporate Tax Law, any entity that forms part of a fund structure and that is a juridical person will be regarded as a Resident Person if it is incorporated in the UAE or incorporated outside the UAE and effectively managed and controlled in the UAE.

An investment fund entity that is considered a Resident Person will be subject to Corporate Tax in the UAE. However, an investment fund entity can apply to the FTA for exemption from Corporate Tax as a Qualifying Investment Fund provided that the relevant conditions are met (as discussed in Section [5](#)).<sup>1</sup> An investment fund entity can only apply for the exemption after it has been registered with the FTA as a Taxable Person.

Where an application is approved, the Qualifying Investment Fund will be an Exempt Person and will not be subject to Corporate Tax. However, each investor in the Qualifying Investment Fund that is a Taxable Person will include their proportional part of the Qualifying Investment Fund's net income available for distribution as reflected in the financial statements of the Qualifying Investment Fund in their own income, in accordance with Article 20 of the Corporate Tax Law, as explained further in Section [4.3](#).<sup>2</sup>

#### 4.1.2. Treatment of investment fund entities that are Unincorporated Partnerships

An investment fund established as an Unincorporated Partnership in accordance with the Corporate Tax Law is not considered a juridical person and will not be treated as a Taxable Person in its own right (i.e. the fund is transparent for Corporate Tax purposes). Income derived by such an Unincorporated Partnership would be treated as earned by the investors (partners) for Corporate Tax Purposes.<sup>3</sup>

A Foreign Partnership, established in accordance with the laws of a foreign jurisdiction, is treated as an Unincorporated Partnership provided that it meets the requirements of Article 16(7) of the Corporate Tax Law and Article 4 of Ministerial Decision No. 127 of 2023.

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<sup>1</sup> Article 10(1) of the Corporate Tax Law.

<sup>2</sup> Article 4 of Cabinet Decision No. 81 of 2023.

<sup>3</sup> Article 16(1) of the Corporate Tax Law.



The investors (partners) in an Unincorporated Partnership may apply to the FTA for the Unincorporated Partnership to be treated as a separate Taxable Person (fiscally opaque), provided that the relevant conditions are met.<sup>4</sup> If the FTA approves the application:

- The investors in the fiscally opaque Unincorporated Partnership will not include the income and expenditure of the Unincorporated Partnership in their own income for Corporate Tax purposes,<sup>5</sup> unless that Unincorporated Partnership becomes a Qualifying Investment Fund.<sup>6</sup>
- The fiscally opaque Unincorporated Partnership can apply to be exempt from Corporate Tax as a Qualifying Investment Fund if the relevant conditions are met.<sup>7</sup>

#### 4.1.3. Treatment of non-resident investment funds

An investment fund entity that is established as a juridical person outside of the UAE will not be a Resident Person, provided that the entity is not effectively managed and controlled in the UAE.<sup>8</sup> However, such a non-resident investment fund entity would be subject to Corporate Tax in the UAE if it has:<sup>9</sup>

- a Permanent Establishment in the UAE (typically no Permanent Establishment should exist in cases where the conditions of the Investment Manager Exemption are met),
- State Sourced Income, or
- a nexus in the UAE as specified in Cabinet Decision No. 56 of 2023.

A Non-Resident Person with a Permanent Establishment in the UAE will be subject to Corporate Tax on income that is attributable to that Permanent Establishment.<sup>10</sup>

State Sourced Income derived by a Non-Resident Person, that is not attributable to a Permanent Establishment, may be subject to Withholding Tax. However, Withholding Tax is currently set at the rate of 0%.<sup>11</sup>

The concept of nexus is applicable only to a Non-Resident Person that is a juridical person. Such a Non-Resident Person will have a nexus in the UAE if they earn income from Immovable Property in the UAE.<sup>12</sup>

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<sup>4</sup> Article 16(8) of the Corporate Tax Law.

<sup>5</sup> Article 16(9) of the Corporate Tax Law.

<sup>6</sup> Article 4 of Cabinet Decision No. 81 of 2023.

<sup>7</sup> Article 10(1) of the Corporate Tax Law read with Article 6 of Cabinet Decision No. 81 of 2023.

<sup>8</sup> Article 11(3)(b) of the Corporate Tax Law.

<sup>9</sup> Article 11(4) of the Corporate Tax Law.

<sup>10</sup> Article 12(3)(a) of the Corporate Tax Law.

<sup>11</sup> Article 45(1)(a) of the Corporate Tax Law.

<sup>12</sup> Article 2 of Cabinet Decision No. 56 of 2023.



## 4.2. Treatment for investment managers

Investment managers usually earn a fee for the provision of brokerage or investment management services. If an investment manager is a Resident Person, such a fee is within the scope of UAE Corporate Tax. Fees earned from a Qualifying Investment Fund would be included in the investment manager's Taxable Income, similar to any other income from the investment manager's Business Activities.

If the investment manager is a Non-Resident Person, it may also be subject to Corporate Tax if it meets any of the conditions mentioned in Section [4.1.3](#) above.<sup>13</sup> If the investment manager has a Permanent Establishment in the UAE, the fees earned by the investment manager would be subject to Corporate Tax if they can be attributed to the Permanent Establishment.<sup>14</sup> If the investment manager receives its income as State Sourced Income, it may be subject to Withholding Tax on the State Sourced Income. However, the current Withholding Tax rate on State Sourced Income is 0%.<sup>15</sup>

## 4.3. Overview of Qualifying Investment Fund status

### 4.3.1. Impact of Qualifying Investment Fund status

A Qualifying Investment Fund is exempt from UAE Corporate Tax and is an Exempt Person. This means:

- The Qualifying Investment Fund will not be a Taxable Person.<sup>16</sup>
- The Qualifying Investment Fund cannot form part of a Qualifying Group for the purposes of Qualifying Group Relief.<sup>17</sup>
- The Qualifying Investment Fund is not entitled to benefit from Business Restructuring Relief for transfers of an entire Business or an independent part of a Business.<sup>18</sup>
- The Qualifying Investment Fund is not entitled to benefit from the provisions for the transfer of Tax Losses.<sup>19</sup>
- The Qualifying Investment Fund cannot form part of a Tax Group.<sup>20</sup>

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<sup>13</sup> Article 11(4) of the Corporate Tax Law.

<sup>14</sup> Article 12(3)(a) of the Corporate Tax Law.

<sup>15</sup> Article 45(1) of the Corporate Tax Law.

<sup>16</sup> Article 4(1)(f) and Article 10 of the Corporate Tax Law.

<sup>17</sup> Article 26(2)(c) of the Corporate Tax Law.

<sup>18</sup> Article 27(2)(c) of the Corporate Tax Law.

<sup>19</sup> Article 38(1)(e) of the Corporate Tax Law.

<sup>20</sup> Article 40(1)(e) of the Corporate Tax Law.



- The Qualifying Investment Fund must maintain all records to enable its status to be readily ascertained by the FTA for a minimum period of 7 years.<sup>21</sup> The FTA requires the Qualifying Investment Fund to file an annual declaration confirming that it continues to meet the exemption conditions.<sup>22</sup>

As a Qualifying Investment Fund remains within the scope of Corporate Tax, it is considered liable to tax.

#### **4.4. Treatment of investors in a Qualifying Investment Fund**

##### **4.4.1. Inclusion of the fund's net income in the income of investors**

If an investor in a Qualifying Investment Fund is a Taxable Person, they are required to include in their income, their proportional share of the amount reflected as net income available for distribution in the financial statements of the Qualifying Investment Fund.<sup>23</sup> For these purposes, net income available for distribution of the Qualifying Investment Fund is allocated between Exempt Income, Interest income, income from Immovable Property in the UAE and other income (as explained further below).

##### **Resident Persons**

For a Resident Person investor that is a juridical person and that holds an ownership interest in a Qualifying Investment Fund, any net income available for distribution that is not Exempt Income will be treated as Taxable Income.<sup>24</sup>

For a Resident Person investor that is a natural person and that holds an ownership interest in a Qualifying Investment Fund, any net income available for distribution that is not Exempt Income will be treated as Taxable Income if the natural person holds the ownership interests in the Qualifying Investment Fund as part of a Business or Business Activity conducted by the natural person.<sup>25</sup> This could be the case if a natural person undertakes investment activities that require a Licence from a Licensing Authority, or is considered part of a commercial business in accordance with the Commercial Transactions Law.

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<sup>21</sup> Article 56(2) of the Corporate Tax Law.

<sup>22</sup> Article 2(4) of FTA Decision No. 7 of 2023.

<sup>23</sup> Article 4 of Cabinet Decision No. 81 of 2023.

<sup>24</sup> Article 12(1) of the Corporate Tax Law.

<sup>25</sup> Article 12(2) of the Corporate Tax Law.



However, if the natural person holds the ownership interest as a Personal Investment, the net income of the Qualifying Investment Fund will not be treated as Taxable Income of the natural person.<sup>26</sup>

#### **Example 1: A natural person investing in a Qualifying Investment Fund**

A natural person based in the UAE invests (using personal savings) in a Qualifying Investment Fund where he earns income from his investment. He does not require a Licence to make such an investment.

The income derived by the natural person is Personal Investment income and accordingly is not subject to Corporate Tax.

#### **Non-Resident Persons**

For a Non-Resident Person that holds an ownership interest in a Qualifying Investment Fund, any net income that is not Exempt Income will be taken into account for Corporate Tax purposes if it is attributable to a Permanent Establishment of the Non-Resident Person in the UAE.

An investor that is a Non-Resident Person and a juridical person that holds an ownership interest in a Qualifying Investment Fund which earns income from Immovable Property in the UAE, is earning income from that Immovable Property and, therefore, has a nexus in the UAE, as specified in Cabinet Decision No. 56 of 2023.<sup>27</sup> The proportional part of net income from Immovable Property in the UAE shall be treated as Taxable Income of that investor.

A Non-Resident Person that holds an ownership interest in a Qualifying Investment Fund may derive State Sourced Income, however, the current Withholding Tax rate on State Sourced Income is 0%.<sup>28</sup>

#### **Exempt Persons**

If an Exempt Person holds an ownership interest in a Qualifying Investment Fund, it will not be subject to Corporate Tax on the net income from the Qualifying Investment Fund. However, if an Exempt Person is treated as a Taxable Person in relation to certain Business or Business Activities under Article 4(2) of the Corporate Tax Law, such an Exempt Person shall treat any net income from a Qualifying Investment Fund (that is not Exempt Income) as Taxable Income only to the extent that it holds an

<sup>26</sup> Article 2 of Cabinet Decision No. 49 of 2023.

<sup>27</sup> Article 2 of Cabinet Decision No. 56 of 2023.

<sup>28</sup> Article 12(3)(b) of the Corporate Tax Law.



ownership interest in a Qualifying Investment Fund as part of its taxable Business or Business Activity.

If a Qualifying Investment Fund (“Fund 1”) holds an ownership interest in another Qualifying Investment Fund (“Fund 2”), any net income of Fund 2 that is available for distribution will be proportionally included in the net income of Fund 1 that is available for distribution, allocated between net Exempt Income, net Interest income, net income from Immovable Property in the UAE and other net income and, therefore, ultimately included in the income of any investors in Fund 1 that are Taxable Persons.

#### **4.4.2. Allocation of income between Exempt Income, Interest income, income from Immovable Property in the UAE and other income**

##### **4.4.2.1. At the Qualifying Investment Fund level**

The Qualifying Investment Fund shall allocate the amount reflected as net income available for distribution in its financial statements into four categories:

- Exempt Income,
- Interest income,
- income from Immovable Property in the UAE, and
- other income.

##### Exempt income

Exempt Income includes Dividend income from Resident Persons,<sup>29</sup> Dividend income from a Participating Interest in a foreign juridical person which meets the conditions of the Participation Exemption,<sup>30</sup> and capital gains, foreign exchange gains or losses and impairment gains or losses in relation to a Participating Interest which meets the conditions of the Participation Exemption.<sup>31</sup>

An ownership interest in a juridical person should be a Participating Interest held by the Qualifying Investment Fund, if the following conditions are met:<sup>32</sup>

- the Qualifying Investment Fund has held, or has the intention to hold, the Participating Interest for an uninterrupted period of at least 12 months,
- the Participation is subject to Corporate Tax or any other tax imposed under the applicable legislation of the country or territory in which the juridical person is resident which is of a similar character to Corporate Tax at a rate not less than the rate specified in Article 3(1)(b) of the Corporate Tax Law (i.e. 9%),

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<sup>29</sup> Article 22(1) of the Corporate Tax Law.

<sup>30</sup> Article 22(2) of the Corporate Tax Law.

<sup>31</sup> Article 23(1) of the Corporate Tax Law.

<sup>32</sup> Article 23(2) of the Corporate Tax Law.





- the ownership interest in the Participation entitles the Qualifying Investment Fund to receive not less than 5% of the profits available for distribution by the Participation, and not less than 5% of the liquidation proceeds on cessation of the Participation,
- not more than 50% of the direct and indirect assets of the Participation consist of ownership interests or entitlements that would not have qualified for the Participation Exemption if held directly by the Qualifying Investment Fund, subject to any conditions that may be prescribed under Article 23(2)(e) of the Corporate Tax Law, and
- all other conditions in relation to the Participation Exemption have been met.<sup>33</sup>

Exempt Income does not include Dividends from:

- Exempt Persons, and
- ownership interests in a foreign Person, if such ownership interests are not Participating Interests.

The question of whether shares or other ownership interests qualify as Participating Interests held by the Qualifying Investment Fund should be assessed at the level of the Qualifying Investment Fund. This applies, for instance, to the requirement to hold an ownership interest of at least 5%.<sup>34</sup> This requirement shall be met if the Qualifying Investment Fund holds an ownership interest of at least 5%, even if the investor's proportional stake in the underlying Participation amounts to less than 5%. This similarly applies to the requirement to hold the Participation for at least 12 months.<sup>35</sup> This requirement shall be met if the Qualifying Investment Fund held the Participation for at least 12 months, even if the investor held their stake in the fund for a shorter period.

### Interest income

Interest income refers to the amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic Financial Instrument and other payments economically equivalent to interest, and any other amounts incurred in connection with the raising of finance, excluding payments of the principal amount.<sup>36</sup>

Interest also includes, but is not limited to, the interest component on any of the following:<sup>37</sup>

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<sup>33</sup> Ministerial Decision No. 116 of 2023.

<sup>34</sup> Article 23(2) of the Corporate Tax Law.

<sup>35</sup> Article 23(2)(a) of the Corporate Tax Law.

<sup>36</sup> Article 1 of the Corporate Tax Law.

<sup>37</sup> Article 2 of Ministerial Decision No. 126 of 2023



- performing and non-performing debt instruments,
- interests held in collective investment schemes that primarily invest in cash and cash equivalents,
- collateralised asset backed debt securities and similar instruments,
- agreements for the sale and subsequent repurchase of the same security at a future date at an agreed upon price,
- stock lending and similar agreements for the disposal of a security subject to an obligation or right to reacquire the same or a similar designated security,
- securitisations and similar transactions involving the transfer of assets in exchange for the issuance of securities that entitle the holder to proceeds generated from these assets,
- lease or hire purchase arrangements where all the risks and rewards incidental to the ownership of the underlying asset have been substantially transferred to the lessee, and
- factoring and similar accounts receivable purchase transactions.

In addition, Interest includes:<sup>38</sup>

- certain amounts incurred in connection with raising finance,
- the interest equivalent component on Islamic Financial Instruments,
- the finance element of finance lease payments as documented in the accounts of a Taxable Person,
- foreign exchange gains and losses accruing from Interest shall be considered Interest, and
- certain income or expenditure on capitalised interest.

#### Income from Immovable Property in the UAE

The Qualifying Investment Fund should also recognise the net income available for distribution from Immovable Property in the UAE, separately.<sup>39</sup> Immovable Property means any of the following:

- any area of land over which rights or interests or services can be created,
- any building, structure or engineering work attached to the land permanently or attached to the seabed, or
- any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

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<sup>38</sup> Articles 3, 4, 5, 6 and 7 of Ministerial Decision No. 126 of 2023

<sup>39</sup> Article 2 of Cabinet Decision No. 56 of 2023.



## Other income

Any net income available for distribution that is not categorised as Exempt Income, Interest income or income from Immovable Property in the UAE, should be allocated to other income.

### **4.4.2.2. At the investor level**

Any investor in a Qualifying Investment Fund that is a Taxable Person shall include in their income their proportional share of the amount reflected as net income available for distribution in the financial statements of the Qualifying Investment Fund.

To the extent the net income relates to net Exempt Income, this should also be treated as Exempt Income for the investor that is a Taxable Person.

Any proportional amount of net Interest income shall be treated as Interest income for any investor that is a Taxable Person.

Under Article 30(1) of the Corporate Tax Law, a Taxable Person's Net Interest Expenditure shall be deductible up to 30% of the Taxable Person's adjusted accounting earnings before the deduction of Interest, tax, depreciation and amortisation, or AED 12 million, whichever is higher.<sup>40</sup> Net Interest Expenditure is determined as the amount by which Interest expenditure exceeds the taxable Interest income.<sup>41</sup>

If the net income of a Qualifying Investment Fund includes net Interest income, a proportional part of the income included shall be treated as Interest income for the Taxable Person who is an investor for the purposes of Article 30 of the Corporate Tax Law. Interest income would reduce the Net Interest Expenditure of the investor.

The net income from Immovable Property in the UAE can create a nexus for an investor that is a Non-Resident juridical person, as explained above.<sup>42</sup>

All other income shall be included in the Taxable Income of the investor where relevant.

Furthermore, where an investor that is a Taxable Person realises a capital gain on the disposal of their ownership interest in a Qualifying Investment Fund, the resulting gain

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<sup>40</sup> Article 30 of the Corporate Tax Law read with Ministerial Decision No. 126 of 2023.

<sup>41</sup> Article 30(2) of the Corporate Tax Law.

<sup>42</sup> Article 2 of Cabinet Decision No. 56 of 2023.



could be Exempt Income, if the ownership interest in the Qualifying Investment Fund qualifies as a Participating Interest.<sup>43</sup> In this respect, a Participation in a Qualifying Investment Fund is considered to meet the subject to Corporate Tax condition under Article 23(2)(b) of the Corporate Tax Law.

### Example 2: Taxation of investor income

A Qualifying Investment Fund has 15 investors and has allocated the net income

Particulars	Amounts (in AED million)
Net Exempt Income	22.5
Net Interest income	5
Net income from Immovable Property in the UAE	15
All other net income	7.5
<b>Total net income available for distribution</b>	<b>50</b>

available for distribution in the relevant financial year as follows:

The investors in the Qualifying Investment Fund are as follows:

- Thirteen investors are natural persons, each holding their investment as a Personal Investment and who collectively hold a 20% ownership interest in the fund.
- One investor is a UAE incorporated juridical person who is a Resident Person (Investor 1) and holds a 40% ownership interest in the fund.
- One investor is a foreign juridical person (Investor 2) who holds a 40% ownership interest in the fund and who does not have a Permanent Establishment in the UAE or State Sourced Income as a result of any of their other activities.

The net income of the natural persons will not be treated as Taxable Income as they hold their stake as a Personal Investment.

Investor 1 and Investor 2 will include the relevant portion of net income available for distribution of the fund in their income. For the relevant financial year, the net income of the Qualifying Investment Fund to be included by investors will be calculated as follows:

<sup>43</sup> Articles 23(1), 23(4) and 23(5)(b) of the Corporate Tax Law.



Particulars	Net Exempt Income	Net Interest income	Net income from Immovable Property in the UAE	All other net income
	(Amounts in AED million)			
Net income per income category	22.5	5	15	7.5
Inclusion of net income by Investor 1 (40%) in its income	9	2	6	3
Inclusion of net income by Investor 2 (40%) in its income	n/a	n/a	6	n/a

For Investor 1, the Exempt Income of AED 9 million will not be treated as Taxable Income, as it remains Exempt Income. The remaining net income of AED 11 million (i.e. net Interest income, net income from Immovable Property, and other net income) will be treated as Taxable Income.

For Investor 2, as a foreign juridical person, it will be regarded as having a nexus only to the extent that it receives income from Immovable Property in the UAE.<sup>44</sup> In this example, net Exempt Income, net Interest income and all other net income, is not included in Investor 2's income, as it is not attributable to its nexus in the UAE. Therefore, only the income from Immovable Property in the UAE of AED 6 million will be treated as Taxable Income for Investor 2.

The requirement to allocate net income applies equally to Qualifying Investment Funds that are REITs.

<sup>44</sup> Article 2 of Cabinet Decision No. 56 of 2023.



### Example 3: Taxation of investor income in case of a REIT

A Qualifying Investment Fund which is a REIT has 15 investors and derives the

Particulars	Amounts (in AED million)
Net Exempt Income	0
Net Interest income	2.5
Net income from Immovable Property in the UAE	47.5
All other net income	0
<b>Total net income available for distribution</b>	<b>50</b>

following net income available for distribution in a financial year:

The investors in the REIT are as follows:

- Thirteen investors are natural persons, each holding their investment as a Personal Investment and who collectively hold a 20% ownership interest in the fund.
- One investor is a UAE incorporated juridical person who is a Resident Person (Investor 1) and holds a 40% ownership interest in the fund.
- One investor is a foreign juridical person (Investor 2) who holds a 40% ownership interest in the fund and who does not have a Permanent Establishment in the UAE or State Sourced Income as a result of any of their other activities.

The net income of the natural persons will not be treated as Taxable Income as they hold their stake as a Personal Investment.

Investor 1 and Investor 2 will include the relevant portion of net income available for distribution of the fund in their income. For the relevant financial year, the net income of the REIT to be included by investors will be calculated as follows:



Particulars	Net Exempt Income	Net Interest income	Net income from Immovable Property in the UAE	All net other income
	(Amounts in AED million)			
Net income per income category	0	2.5	47.5	0
Inclusion of net income by Investor 1 (40%) in its income	0	1	19	0
Inclusion of net income by Investor 2 (40%) in its income	n/a	n/a	19	n/a

For Investor 1, all of the net income totalling AED 20 million will be treated as Taxable Income.

For Investor 2, as a foreign juridical person, it will be regarded as having a nexus to the extent it receives income from Immovable Property in the UAE.<sup>45</sup> In this example, net Exempt Income, net Interest income and all other net income, is not included in Investor 2's income, as it is not attributable to its nexus in the UAE. Therefore, only the net income from Immovable Property in the UAE of AED 19 million will be treated as Taxable Income for Investor 2.

#### 4.4.3. Time apportionment of income

The requirement to include the net income and expenditure of a Qualifying Investment Fund only applies to the extent the net income and expenditure has been reflected as net income available for distribution in the financial statements of the Qualifying Investment Fund.<sup>46</sup> Therefore, the net income and expenditure for a particular financial year of the Qualifying Investment Fund will be the amount reflected in the financial statements of the Qualifying Investment Fund as at its year end.

<sup>45</sup> Article 2 of Cabinet Decision No. 56 of 2023.

<sup>46</sup> Article 4(1) of Cabinet Decision No. 81 of 2023.



If the financial year of the Qualifying Investment Fund differs from the Tax Period of an investor that is a Taxable Person, the investor must include the net income available for distribution in the Tax Period in which the year end of the Qualifying Investment Fund occurs.

If a Taxable Person held a stake for only part of the financial year of the Qualifying Investment Fund, the net income is also required to be apportioned by the Qualifying Investment Fund. As a result, it is possible that a Taxable Person is required to include the net income from the Qualifying Investment Fund that was earned in a Tax Period when it no longer holds the investment in the Qualifying Investment Fund.

**Example 4: Inclusion of net income for investor in a Tax Period that includes the closing date of the financial year of the Qualifying Investment Fund**

X LLP is a Qualifying Investment Fund. X LLP uses the Gregorian calendar year (31 December) as its financial year end.

A LLC is a Resident Person that acquires a 10% ownership interest in X LLP on 26 May 2025 for AED 100 million. A LLC sells its ownership interest on 14 March 2027 for AED 120 million. A LLC's Financial Year end is 31 March.

As a result, A LLC shall include the relevant net income available for distribution in its income, for the Tax Periods ending on 31 March 2026 and 31 March 2027 respectively.

In the Tax Period ending 31 March 2028, the requirement to include net income applies despite A LLC having sold its stake before the Tax Period started. As a result, A LLC shall include the relevant net income available for distribution in its Taxable Income for the Tax Period ending on 31 March 2028.

If A LLC realised a capital gain on the sale of the ownership interest in X LLP and if the ownership interest in X LLP qualified as a Participating Interest, the capital gain realised on the sale would be Exempt Income and, therefore, not included in the Taxable Income of A LLC (in this regard, refer to Section [4.4.4](#) below).

#### 4.4.4. Treatment of distributions

Any distributions made by a Qualifying Investment Fund should not be included in the income of an investor who is a Taxable Person, to the extent that net income available for distribution was already previously included in the income of that investor (as outlined in the previous section).<sup>47</sup>

<sup>47</sup> Article 4(2) of Cabinet Decision No. 81 of 2023.





Whether net income available for distribution was previously included by the investor in its income should be determined on a combined basis for all Tax Periods up to and including the Tax Period in which the distribution was made.

#### Example 5: Inclusion of distributions in income

X LLP is a Qualifying Investment Fund. A LLC is a Resident Person that acquires a 10% ownership interest in X LLP. X LLP and A LLC use the Gregorian calendar year (31 December) as their financial year end.

All of the income of X LLP is other net income. Over a three-year period, X LLP realises the following net income available for distribution:

Particulars	Financial year ending 31 December 2024	Financial year ending 31 December 2025	Financial year ending 31 December 2026
	(Amounts in AED million)		
Total net income available for distribution	60	10	100
Net income included by A LLC (10% of total net income)	6	1	10
Total distributions made by X LLP	-	50	80
Distributions made by X LLP to A LLC (10% of total distributions made)	-	5	8

A LLC should not include the distributions in its income to the extent that it has previously included net income available for distribution.

In the financial year ending 31 December 2025, A LLC receives a distribution of AED 5 million, which is less than the AED 7 million it has included in its income (i.e. AED 6 million in the 2024 Tax Period and AED 1 million in the 2025 Tax Period). Therefore, A LLC shall not include the distribution by X LLP in its income.



In the financial year ending 31 December 2026, it receives a distribution of AED 8 million. Together with the distribution received in the prior years, A LLC has received AED 13 million of distributions from X LLP (i.e. AED 5 million in the 2025 Tax Period and AED 8 million in the 2026 tax period), which is less than the AED 17 million it has included in its income (i.e. AED 6 million in the 2024 Tax Period, AED 1 million in the 2025 Tax Period and AED 10 million in the 2026 Tax Period). Therefore, A LLC shall not include the distribution by X LLP in its income.

The net income previously included by an investor includes net Exempt Income, net Interest income, net income from Immovable Property in the UAE and other net income. In other words, if a Qualifying Investment Fund realises Exempt Income, investors that are Taxable Persons would also take into account such income for the purpose of Article 4(2) of Cabinet Decision No. 81 of 2023.

If a distribution by a Qualifying Investment Fund to a particular investor exceeds the amount of net income that has already been taken into account as part of the investor's income, only the excess amount of the distribution should be treated as income for the investor.

A distribution by a Qualifying Investment Fund incorporated in the UAE would not qualify as Exempt Income for the investor, as the Qualifying Investment Fund is not a Resident Person (because it is an Exempt Person).<sup>48</sup> Therefore, a distribution that exceeds the net income included for a Taxable Person would be Taxable Income.

By contrast, if an investor that is a Taxable Person realises a capital gain on the disposal of their ownership interest in a Qualifying Investment Fund, the resulting gain could be Exempt Income, if the ownership interest in the Qualifying Investment Fund qualifies as a Participating Interest.<sup>49</sup>

#### 4.4.5. Application of other Corporate Tax provisions

As a Qualifying Investment Fund is not a Taxable Person and is not subject to Corporate Tax, the net income of a Qualifying Investment Fund that is available for distribution should not be adjusted under the provisions of the Corporate Tax Law that apply only to Taxable Persons, for instance Article 20(2), Article 20(3), Article 20(5), Article 24, Article 26, Article 27, Article 28, Article 29, Article 30, Article 31, Article 32, Article 33 or Article 34 of the Corporate Tax Law.

<sup>48</sup> Articles 22(1), 22(2) and 23(5) of the Corporate Tax Law.

<sup>49</sup> Articles 23(1), 23(4) and 23(5)(b) of the Corporate Tax Law.



#### 4.4.6. Treatment of Exempt Persons held by Qualifying Investment Funds

A juridical person incorporated in the UAE that is wholly owned by a Qualifying Investment Fund can also apply to be an Exempt Person, if the conditions in Article 4(1)(h) of the Corporate Tax Law are met (as explained in Section [5.10](#)). This treatment is not automatic and requires an application, following the same procedures and time limits as a Qualifying Investment Fund.

When determining the net income of a Qualifying Investment Fund that is available for distribution and to be included in the income of the investors, the net income of the Qualifying Investment Fund should include the net income of any Exempt Persons who are wholly owned by that Qualifying Investment Fund and derive their Exempt Person status from Article 4(1)(h) of the Corporate Tax Law.

If the Qualifying Investment Fund prepares consolidated financial statements that include the results of such Exempt Persons and do not include the results of any other Persons, the determination of the net income included by investors can be based on such consolidated financial statements.

If no such consolidated financial statements are available, in determining the net income available for distribution to investors, the net income of the Qualifying Investment Fund and the net income of any subsidiaries that are treated as Exempt Persons under Article 4(1)(h) of the Corporate Tax Law shall be aggregated in a manner similar to consolidation, eliminating:

- any Dividends paid by the Exempt Persons, and
- any other transactions between the Exempt Persons and the Qualifying Investment Fund.

#### 4.4.7. Impact of ceasing to be part of a Qualifying Group

If the Taxable Persons involved in a transfer under Article 26 of the Corporate Tax Law cease to be members of the same Qualifying Group within two years, the transfer of the asset shall be treated as having taken place at Market Value at the date of the transfer for the purposes of determining the Taxable Income of both Taxable Persons for the relevant Tax Period.<sup>50</sup> If an entity obtains Qualifying Investment Fund status, it will become an Exempt Person and will cease to form part of any Qualifying Group. Therefore, obtaining Qualifying Investment Fund status could trigger a clawback, if this occurs within two years of a transfer of assets or liabilities within a Qualifying Group.<sup>51</sup>

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<sup>50</sup> Articles 26(4) and (5) of the Corporate Tax Law.

<sup>51</sup> Article 26(4) of the Corporate Tax Law.



### **Example 6: Corporate Tax arising from ceasing to be part of Qualifying Group**

A LLP and B LLC are part of a Qualifying Group and resident in the UAE. A LLP holds a 90% direct ownership interest in B LLC. Their Tax Periods end on 31 December.

On 1 March 2025, A LLP transfers certain assets to B LLC on which the no gain or loss treatment is applied in accordance with Article 26(3) of the Corporate Tax Law. The book value of the assets at the time of transfer is AED 30 million, but their Market Value is AED 35 million.

On 1 January 2026, A LLP becomes a Qualifying Investment Fund and, therefore, an Exempt Person. As a result, A LLP will cease to be a member of the Qualifying Group with B LLC which is within two years of transferring the assets to B LLC.

As A LLP and B LLC cease to be members of the same Qualifying Group within two years of the transfer within the Qualifying Group, the transfer of the asset shall be treated as having taken place at Market Value at the date of the transfer for the purposes of determining the Taxable Income of both Taxable Persons for the current Tax Period. The resulting gain should, in principle, be included in the Taxable Income of the transferor, but as the transferor ceases to be a Taxable Person as a result of the Qualifying Investment Fund status, the gain would be included in the Taxable Income of the transferee instead.<sup>52</sup> As a result, a gain of AED 5 million will be included in the Taxable Income of B LLC in the Tax Period ending 31 December 2026.

#### **4.4.8. Impact of leaving a Tax Group or causing a Tax Group to cease to exist**

A Qualifying Investment Fund is an Exempt Person and, therefore, cannot be part of a Tax Group under Article 40 of the Corporate Tax Law.<sup>53</sup> As a result, if an investment fund that is part of a Tax Group obtains Qualifying Investment Fund status, it will automatically leave the Tax Group. The investment fund entity will be treated as having left the Tax Group from the beginning of the Tax Period in which it ceases to meet the conditions to form part of the Tax Group.<sup>54</sup>

<sup>52</sup> Article 5(2) of Ministerial Decision No. 132 of 2023.

<sup>53</sup> Article 40(1)(e) of the Corporate Tax Law.

<sup>54</sup> Articles 40(10)(b), 40(11)(b) and 41(3) of the Corporate Tax Law.



If the Qualifying Investment Fund was the Parent Company of the Tax Group, the Tax Group would also cease to exist as per the start of that Tax Period, unless the Qualifying Investment Fund is replaced by another Parent Company.<sup>55</sup>

If any asset or liability was transferred to or from an investment fund within the Tax Group in the two-year period before it became a Qualifying Investment Fund (and, therefore, applied to be an Exempt Person), the associated gain or loss on the transfer may need to be taken into account by the relevant transferor or transferee.<sup>56</sup>

#### 4.4.9. Impact on relief for Tax Losses

If an investment fund has existing Tax Losses or unutilised Net Interest Expenditure prior to obtaining Qualifying Investment Fund status, those Tax Losses and unutilised Net Interest Expenditure cannot be utilised while it has Qualifying Investment Fund status.<sup>57</sup>

However, if it loses the Exempt Person status in a later Tax Period, it can utilise the Tax Losses or unutilised Net Interest Expenditure from that Tax Period onwards, provided that the conditions for utilisation are met.<sup>58</sup> For the purposes of carrying forward those Tax Losses, obtaining Qualifying Investment Fund status is not considered a change of ownership under Article 39 of the Corporate Tax Law if the ownership of the investors in the investment fund does not change.

A Taxable Person cannot claim Tax Loss relief for losses incurred before a Person becomes a Taxable Person under the Corporate Tax Law, nor for losses incurred from an asset or activity the income of which is exempt, or otherwise not taken into account, under the Corporate Tax Law.<sup>59</sup> This means that any losses which arose in the hands of an investment fund at the time it was a Qualifying Investment Fund are not Tax Losses and cannot be carried forward to any subsequent Tax Periods or utilised by a fund if it ceases to be a Qualifying Investment Fund.

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<sup>55</sup> Article 40(12) of the Corporate Tax Law.

<sup>56</sup> Article 42(9) of the Corporate Tax Law.

<sup>57</sup> Articles 4, 28(2)(b) and 37(1) of the Corporate Tax Law.

<sup>58</sup> Articles 30(1) and 37(1) of the Corporate Tax Law.

<sup>59</sup> Article 37(3) of the Corporate Tax Law.



## 5. Conditions for being a Qualifying Investment Fund

### 5.1. Overview

An investment fund may apply to the FTA to be exempt from Corporate Tax as a Qualifying Investment Fund provided the conditions prescribed in Article 10(1) of the Corporate Tax Law and Cabinet Decision No. 81 of 2023 are met. The conditions set out in Article 10(1) of the Corporate Tax Law are as follows:<sup>60</sup>

- a) the investment fund or the investment fund's manager is subject to the regulatory oversight of a competent authority in the UAE, or a foreign competent authority recognised for the purposes of Article 10 of the Corporate Tax Law (the "regulatory oversight condition"),
- b) interests in the investment fund are traded on a Recognised Stock Exchange or are marketed and made available sufficiently widely to investors (the "fund ownership condition"), and
- c) the main or principal purpose of the investment fund is not to avoid Corporate Tax (the "main purpose condition").

The following additional conditions for investment funds (other than Real Estate Investment Trusts "REITs") are set out in Cabinet Decision No. 81 of 2023, as follows:<sup>61</sup>

- the main Business or Business Activities conducted by the investment fund are Investment Business activities, and any other Business or Business Activities conducted by the investment fund are ancillary or incidental (the "Investment Business condition"),
- a single investor and its Related Parties do not own:
  1. more than 30% of the ownership interests in the investment fund, where the investment fund has less than ten investors; or
  2. more than 50% of the ownership interests in the investment fund, where the investment fund has ten or more investors (the "diversity of ownership condition"),
- the investment fund is managed or advised by an Investment Manager that has a minimum of three investment professionals (the "Investment Manager condition"), and
- the investors shall not have control over the day-to-day management of the investment fund (the "independence condition").

The above additional conditions do not apply to REITs. Instead, Cabinet Decision No. 81 of 2023 has set out the following additional conditions for REITs.<sup>62</sup> These additional

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<sup>60</sup> Article 10(1) of the Corporate Tax Law.

<sup>61</sup> Article 2 of Cabinet Decision No. 81 of 2023.

<sup>62</sup> Article 3 of Cabinet Decision No. 81 of 2023.



conditions are in addition to the conditions under Article 10(1) of the Corporate Tax Law:

- The value of real estate assets, excluding land, under the management or ownership of the REIT exceeds AED 100 million (the “REIT minimum real estate asset value condition”).
- At least 20% of the REIT share capital is floated on a Recognised Stock Exchange, or it is directly wholly owned by two or more institutional investors specified in Article 5 of Cabinet Decision No. 81 of 2023, provided that at least two of those institutional investors are not Related Parties (the “REIT ownership condition”).
- The REIT has an average Real Estate Asset Percentage of at least 70% during the relevant Gregorian calendar year or the relevant 12-month period for which the financial statements are prepared (the “REIT real estate percentage condition”).

A failure to meet the conditions would not immediately cause a Qualifying Investment Fund to lose its status, if the conditions of Article 4(6) of the Corporate Tax Law and Ministerial Decision No. 105 of 2023 are met (as explained in Section [5.1.2](#)).<sup>63</sup> However, in other cases, each of the conditions outlined above must be met continuously during the relevant Tax Period by the Qualifying Investment Fund or the REIT, as the case may be, in order to be treated as an Exempt Person during such Tax Period.

Each of these conditions is discussed in detail in this section. In addition, this section will discuss the conditions for entities wholly owned and controlled by a Qualifying Investment Fund to be treated as an Exempt Person.<sup>64</sup>

### 5.1.1. Persons eligible for Qualifying Investment Fund status

A Qualifying Investment Fund is an Exempt Person, which means it is a Person exempt from Corporate Tax.<sup>65</sup> Natural persons and juridical persons are regarded as Persons.<sup>66</sup> A natural person cannot be a Qualifying Investment Fund. Thus, subject to the exception referred to below, only a juridical person can be a Qualifying Investment Fund.

If an election has been made to treat an Unincorporated Partnership as a Taxable Person in its own right (i.e. as fiscally opaque),<sup>67</sup> it can make an application to be a Qualifying Investment Fund, provided the relevant conditions are met.

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<sup>63</sup> Article 4(6) of the Corporate Tax Law.

<sup>64</sup> Article 4(1)(h) of the Corporate Tax Law.

<sup>65</sup> Article 4(1) of the Corporate Tax Law.

<sup>66</sup> Article 1 of the Corporate Tax Law.

<sup>67</sup> Article 16(8) of the Corporate Tax Law and Article 6 of Cabinet Decision No. 81 of 2023.



If a foreign incorporated investment fund entity is subject to Corporate Tax as either a Resident Person (for example, due to effective management and control in the UAE) or as a Non-Resident Person (for example, due to a Permanent Establishment or other nexus in the UAE), it can apply to be exempt from Corporate Tax as a Qualifying Investment Fund, if it meets the relevant conditions.

A Free Zone Person may apply to the FTA to be exempt from Corporate Tax as a Qualifying Investment Fund if the relevant conditions are met.

### 5.1.2. Impact of not meeting the conditions in later Tax Periods

Once any of the conditions for a Qualifying Investment Fund are no longer met at any particular time during a Tax Period, the Qualifying Investment Fund will cease to be an Exempt Person from the start of the Tax Period during which it ceased to meet the relevant condition.<sup>68</sup>

However, a Qualifying Investment Fund would not lose its status from the start of the Tax Period if:

1. it fails to meet the conditions as a result of its liquidation or termination, or
2. the failure to meet the conditions is of a temporary nature and will be promptly rectified, and appropriate procedures are in place to monitor compliance with the relevant conditions.<sup>69</sup>

In respect of (1), the Qualifying Investment Fund must notify the FTA within 20 business days from the date of the beginning of the liquidation or termination procedures.<sup>70</sup> In such a case, the Qualifying Investment Fund shall cease to be an Exempt Person on the day following the date of the completion of the liquidation or termination procedure.<sup>71</sup>

In respect of (2), the Qualifying Investment Fund shall continue to be an Exempt Person if all of the following conditions are met:<sup>72</sup>

- a. The failure to meet the conditions is due to a situation or an event beyond the Qualifying Investment Fund's control which it could not reasonably have predicted or prevented.
- b. The Qualifying Investment Fund has made an application to the FTA to continue to be treated as an Exempt Person within 20 business days from the date it fails to meet the conditions of a Qualifying Investment Fund. The FTA shall review the

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<sup>68</sup> Article 4(5) of the Corporate Tax Law.

<sup>69</sup> Article 4(6) of the Corporate Tax Law.

<sup>70</sup> Article 2(1) of Ministerial Decision No. 105 of 2023.

<sup>71</sup> Article 2(2) of Ministerial Decision No. 105 of 2023.

<sup>72</sup> Article 3(1) of Ministerial Decision No. 105 of 2023.





- application and notify its decision within 20 business days of the submission of the application or, if the FTA has notified the Qualifying Investment Fund, such other time period required to review the application.
- c. It is reasonably expected to rectify the failure to meet the conditions within 20 business days from the submission of such application. This period may be extended upon request (and subject to approval by the FTA) for another 20 business days if the failure to rectify is beyond the Qualifying Investment Fund's reasonable control.<sup>73</sup>
  - d. Upon request by the FTA, the Qualifying Investment Fund provides evidence to support putting in place the appropriate procedures to monitor the compliance with the relevant conditions of the Corporate Tax Law, within 20 business days from the date of the request by the FTA, or any other period as may be determined by the FTA.

If the failure to meet the conditions is not of a temporary nature, an investment fund entity will cease to be a Qualifying Investment Fund. If so, this will mean:

- It will no longer be an Exempt Person and, as a result, will be subject to Corporate Tax as a Taxable Person from the start of the Tax Period in which the conditions were not met.<sup>74</sup> If the Taxable Person does not realise the conditions are not met, it is possible it mistakenly does not file Tax Returns for one or more Tax Periods. In such a case, it would be liable for penalties for its failure to file a Tax Return.
- Any entities wholly owned and controlled by such an investment fund will no longer be an Exempt Person under Article 4(1)(h) of the Corporate Tax Law. Such entities will cease to be an Exempt Person for any of their Tax Periods, where they are no longer continuously wholly owned and controlled by a Qualifying Investment Fund.
- Investors in such an investment fund that are Taxable Persons should no longer include the relevant net income in their income as of that date.<sup>75</sup>
- Any feeder funds investing in such an investment fund should no longer count a proportional part of the Revenue of the investment fund for the purpose of the Investment Business condition (as explained in Section [5.5](#))
- If such an investment fund invests in a second investment fund, the second investment fund should no longer look through the first investment fund for the purpose of the diversity of ownership condition (as explained in Section [5.6](#)).

## 5.2. Regulatory oversight condition

Regulatory oversight generally provides a legal framework for the promotion and distribution of investment opportunities to UAE investors and for ensuring appropriate

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<sup>73</sup> Article 3(2) of Ministerial Decision No. 105 of 2023.

<sup>74</sup> Article 4(5) of the Corporate Tax Law.

<sup>75</sup> Article 4(1) of Cabinet Decision No. 81 of 2023.



risk management, investor rights protection and communication to investors about investment risks.

The regulatory oversight condition requires that the investment fund or the investment fund's manager must be subject to the regulatory oversight of a competent authority in the UAE, or a recognised foreign competent authority.<sup>76</sup>

There are three different competent authorities responsible for the authorisation and supervision of UAE financial institutions which includes investment funds and investment managers. These are:

- the Securities and Commodities Authority (“SCA”) which regulates markets, listed companies and securities brokers within the UAE (other than those resident in DIFC and ADGM),
- the Dubai Financial Services Authority (“DFSA”), which is the regulator of the Dubai International Financial Centre (“DIFC”), and
- the Financial Services Regulatory Authority (“FSRA”), which is the regulator of the Abu Dhabi Global Market (“ADGM”).

Whilst, in practice, it may be difficult for a non-resident fund manager of a UAE investment fund to carry on all its activities without requiring a Licence or registration in the UAE, the Qualifying Investment Fund status could also be available if the fund manager of a UAE managed fund is subject to regulatory oversight by a foreign authority that is recognised as competent to regulate fund management activities. The inclusion of foreign competent authorities is also relevant to cover non-UAE incorporated investment funds that are not Resident Persons, but are Taxable Persons due to having a Permanent Establishment in the UAE or a nexus in the UAE as specified in Cabinet decision No. 56 of 2023 and wish to apply for the Qualifying Investment Fund exemption.

A foreign authority will generally be considered a “foreign competent authority” if it subjects an investment fund or its manager to regulatory oversight with the aim of protecting matters such as financial stability, interests of investors in collective investment schemes and preventing disproportionate financial risks and fraudulent activities by investment managers.

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<sup>76</sup> Article 10(1)(a) of the Corporate Tax Law.



### 5.3. Fund ownership condition

To be a Qualifying Investment Fund, interests in the investment fund need to be either:<sup>77</sup>

1. traded on a Recognised Stock Exchange, or
2. marketed and made available sufficiently widely to investors.

A Recognised Stock Exchange includes a stock exchange established in the UAE that is licensed and regulated by the relevant competent authority (such as the Abu Dhabi Securities Exchange (“ADX”), Dubai Financial Market (“DFM”), and Nasdaq Dubai), or a foreign stock exchange that is licensed and regulated by the relevant foreign competent authority and has an equal standing to that of a UAE stock exchange. Whether a stock exchange established outside the UAE has equal standing is dependent on whether that stock exchange that is recognised as such for the purpose of its local legislation.

The fund ownership condition can also be met if a fund is considered marketed and made available sufficiently widely to investors. This means that the fund needs to demonstrate it has attempted to achieve a diversity of ownership. However, if a fund (other than a REIT) has achieved a diversity of ownership in line with the diversity of ownership condition described in Section 5.6 below, it would be reasonable to conclude that the fund has been marketed and made available sufficiently widely and, as a result, the fund ownership condition would be met.

### 5.4. Main purpose condition

Qualifying Investment Fund status is not available for funds when the main or principal purpose of the fund is to avoid UAE Corporate Tax. The main or principal purpose condition refers specifically to UAE Corporate Tax and does not extend to foreign taxes.

The main purpose condition is intended to prevent the avoidance of Corporate Tax, but is not intended to prevent the application of the Qualifying Investment Fund status for investment fund entities that were established with the main purpose of pooling and investing of funds received from investors on a collective basis. Whether a fund has been set up with the main purpose of avoiding Corporate Tax will be determined on a case by case basis. The mere fact that a fund has been set up with the expectation that it will be an Exempt Person does not mean avoidance of Corporate Tax is its main purpose. However, where a Corporate Tax benefit is the only commercial benefit of a structure, this could be an indication that the main purpose condition is not met.

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<sup>77</sup> Article 10(1)(b) of the Corporate Tax Law.



## 5.5. Investment Business condition

### 5.5.1. Meaning of Investment Business

The Investment Business condition requires that the main Business or Business Activities conducted by the investment fund are Investment Business activities, and any other Business or Business Activities conducted by the investment fund are ancillary or incidental.<sup>78</sup> Investment Business is defined as “the issuing of investment interests to raise funds or pool investor funds or establish a joint investment fund with the aim of enabling the holder of such an investment interest to benefit from the profits or gains resulting from the entity's acquisition, holding, management or disposal of investments, in accordance with the applicable legislation of the UAE.”<sup>79</sup> This condition does not apply to REITs.

If not all activities of an entity fall within the scope of Investment Business, the size of the Revenue from Investment Business and such other activities should be considered to determine whether the other activities can be considered ancillary or incidental. Other activities are considered as ancillary or incidental if the combined Revenue of such other Business or Business Activities does not exceed 5% of the total Revenue of the investment fund in the same financial year.<sup>80</sup>

### 5.5.2. Distinction between Business of the Investment Manager and the Investment Business

Investment Business requires that an entity issues investment interests and invests funds for the benefit of its investors, whereas the Business of an Investment Manager usually consists of managing funds of others (including but not limited to investment funds). Income generated from Business Activities that are carried out by the Investment Manager are subject to Corporate Tax as the Investment Manager's Taxable Income and do not taint the Investment Business condition for the investment fund.<sup>81</sup>

The Investment Manager may represent the investment fund or exercise an authority to conduct Business or Business Activity on behalf of an investment fund entity from time to time (similar to an agent), but it would do so in its capacity as Investment Manager and the income (typically fees) it earns from those Business Activities would not be attributed to the Qualifying Investment Fund.

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<sup>78</sup> Article 2(1)(a) of Cabinet Decision No. 81 of 2023.

<sup>79</sup> Article 1 of Cabinet Decision No. 81 of 2023.

<sup>80</sup> Article 2(2)(c) of Cabinet Decision No. 81 of 2023.

<sup>81</sup> Article 2(2)(a) of Cabinet Decision No. 81 of 2023.



Normally, the result of this is that any fee income earned by the Investment Manager for managing a Qualifying Investment Fund is subject to Corporate Tax. If so, any Business Activities performed by the Investment Manager will be regarded as Investment Business, even if they would be attributed to the Qualifying Investment Fund.<sup>82</sup> This treatment also applies if the Investment Manager is not subject to Corporate Tax on the fee income, but the Investment Manager is acting for the Qualifying Investment Fund in an independent capacity, analogous to the Investment Manager Exemption.<sup>83</sup> As the Investment Business condition is assessed based on Revenue, this would only be relevant to the extent the activities of the Investment Manager result in Revenue for the Qualifying Investment Fund.

### 5.5.3. Examples of other activities treated as Investment Business

The Investment Business condition is assessed by reference to the Revenue of the Qualifying Investment Fund.<sup>84</sup> Revenue of the Qualifying Investment Fund is regarded as Revenue from an Investment Business activity if it consists of profits or gains resulting from the acquisition, holding, management or disposal of investments.<sup>85</sup> For instance, if a Qualifying Investment Fund has invested in shares and loans receivable, Dividends, Interest and disposal gains or losses on such shares and loans receivable count as an Investment Business activity, as well as any profits and gains or losses relating to those investments. For example, arrangement fees paid for providing financing, hedging transactions, options transactions, fees earned for early repayment of loans, payments in lieu of Dividend or Interest payments (including compensation for the loss of Dividends and Interest) and payments received from the buyback of shares should all be regarded as income from the Investment Business.

Any form of income arising from investments will count as Investment Business. For instance, an investment in commercial real estate can generate Revenue in the form of rental income, but also in the form of fees paid for parking spaces that are part of the real estate. In such case, both forms of Revenue count as Revenue from Investment Business.

There is no requirement to hold investments for a minimum period to be considered Investment Business. For example, if an investment fund engages in high-frequency trading as part of its investment strategy, the Revenue from such activity could be Revenue from Investment Business.

Any other Revenue that has a close relationship or nexus to the investments should generally be regarded to be Revenue from Investment Business. For instance, it can

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<sup>82</sup> Article 2(2)(b)(1) of Cabinet Decision No. 81 of 2023.

<sup>83</sup> Article 2(2)(b)(2) of Cabinet Decision No. 81 of 2023.

<sup>84</sup> Article 2(2)(c) of Cabinet Decision No. 81 of 2023.

<sup>85</sup> Article 1 of Cabinet Decision No. 81 of 2023.



apply if a Qualifying Investment Fund charges fees paid for external advice to assess investment or divestment opportunities (including due diligence), financial performance or strategic advice on the operations of subsidiaries invested in. If a Qualifying Investment Fund incurs such costs and charges to these entities it has invested in, the Revenue earned from charging such costs counts as Revenue from its Investment Business. Similarly, any Revenue earned by a Qualifying Investment Fund from management services, oversight services, administrative support, deal fees or any similar fees in relation to investment opportunities can be considered Revenue from Investment Business.

If an investment fund passively holds cash in its bank account, this should also be regarded as consistent with an Investment Business, provided this cash is held as a result of Investment Business activities (for example, proceeds from investments or funds received from investors or other investment related financing) or for the purpose of supporting its Investment Business (for example, funds obtained to cover running costs of the Investment Business or to hold as available for suitable investment opportunities).

However, not all activities performed by an investment fund will qualify as Investment Business. For instance, if an investment fund acquires the assets and liabilities of an active operational business (such as a retail store, a manufacturing Business, a consulting Business, etc.), the recurring Revenue from such a Business would not count as Revenue from an Investment Business, even if it intends to ultimately sell the assets and liabilities. However, if the investment fund acquires shares in a company with an operational Business for the purposes of investment, this could be considered part of an Investment Business.

If an investment fund has no Revenue in a given Tax Period, it can meet the Investment Business condition, if by reference to other factors (such as expenditure and time spent by management), its main Business, or Business Activities are Investment Business activities and any other Business or Business Activities are ancillary or incidental.<sup>86</sup>

#### **Example 7: Investment Business condition**

X LLP is a Qualifying Investment Fund with Investment Business activities as its main Business. X LLP invests almost exclusively in shares in private businesses with the aim to sell such shares at a gain at a later date. X LLP has the Gregorian calendar year as its financial year.

<sup>86</sup> Article 2(1)(a) of Cabinet Decision No. 81 of 2023.



In 2024, X LLP makes several investments and sells one existing investment with a gain of AED 100 million. In 2025, X LLP makes several investments but does not sell any of its existing investments.

As a result, its Revenue is as follows:

Particulars	2024	2025
	(Amounts in AED million)	
Income from sale of shares	100	0
Income from other activities	0	0
Total Revenue	100	0
Percentage of Revenue related to Investment Business	100%	0%

In 2024, the Investment Business condition is met, as all Revenue relates to Investment Business activities.

In 2025, no Revenue was earned. However, the Investment Business condition is still met if, based on the overall activities of X LLP (such as assets held, cost incurred or time spent by senior management) and the history (such as Revenue in previous years), its main Business or Business Activities are Investment Business activities, and any other Business or Business Activities are ancillary or incidental.

The Revenue of an investment fund consists of its own Revenue and a proportional stake of the Revenue of any tax transparent entity in which the investment fund holds an ownership interest. In other words, if an investment fund holds a 10% ownership interest in an Unincorporated Partnership that is not treated as a Taxable Person, 10% of the Revenue of the Unincorporated Partnership is treated as Revenue of the investment fund. If the Revenue included in this way is not in relation to an Investment Business and such Revenue is more than 5% of the investment fund's Revenue, the Investment Business condition would not be met.

#### 5.5.4. Ancillary or incidental Business Activities

If Revenue from other Business or Business Activities does not exceed 5% of the total Revenue of the investment fund in the same financial year, such activities should be regarded as ancillary or incidental and, therefore, the Investment Business condition can still be met.<sup>87</sup> However, if the Revenue from such other activities is more than 5%, the Investment Business condition is not met.

<sup>87</sup> Article 2(2)(c) of Cabinet Decision No. 81 of 2023.



The Revenue should be regarded at the level of the investment fund itself on a standalone basis. The Revenue of its subsidiaries should not be taken into account, even if such subsidiaries are included in consolidated accounts with the investment fund. For instance, if a private equity fund acquires a 100% stake in an operational manufacturing company, this would be an investment consistent with the private equity fund's Investment Business. However, the operational manufacturing company does not have an Investment Business. Therefore, including the Revenue from the operational manufacturing company would be inconsistent with the aim of the Investment Business test. At the level of the fund, the Revenue from this investment might consist of Dividends, capital gains and Interest on shareholder loans, which would all be consistent with the Investment Business activities.

### 5.5.5. Application to feeder funds

A feeder fund (investment vehicle) pools capital commitments of investors and invests or "feeds" such capital into a main fund, often called a master fund, which directs and oversees all investments held in the investment fund. A feeder fund entity can become a Qualifying Investment Fund if the conditions are met, including the Investment Business condition. Whether the Investment Business condition is met is assessed at the level of the feeder fund entity itself.

#### **Example 8: Investment Business condition in feeder funds**

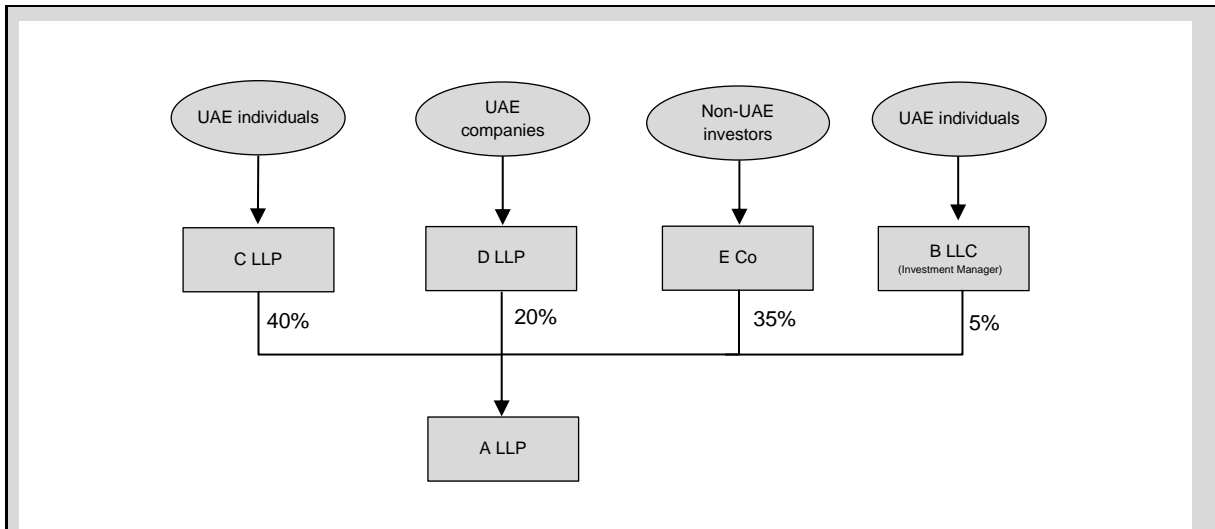
A LLP is an investment fund with B LLC as Investment Manager. A LLP is an index tracking fund and all of its Revenue is derived from investments in shares listed on a Recognised Stock Exchange.

The investors in A LLP include C LLP (which owns 40%), D LLC (which owns 20%), E Co (which owns 35%) and B LLC (which owns 5%). B LLC is the Investment Manager of A LLP, C LLP, D LLP and E Co.

A LLP, B LLC, C LLP and D LLP are Resident Persons which are considering whether they could apply for Qualifying Investment Fund status. E Co is a foreign incorporated juridical person that is not a Taxable Person.

The investors in C LLP consist only of UAE resident individuals. The investors in D LLP consist only of UAE companies (including Exempt Persons). The investors in E Co consist only of persons who are not Taxable Persons. C LLP, D LLP and E Co do not have any Business Activities other than holding the ownership interest in A LLP.





Any investment fund entity that is a Taxable Person can apply to become a Qualifying Investment Fund, if it meets the relevant conditions (including the Investment Business condition).

All of A LLP's Revenue is derived from shares listed on a stock exchange. Therefore, the Investment Business condition is met for A LLP.

If A LLP becomes a Qualifying Investment Fund, its Revenue would be treated as income of B LLC, C LLP and D LLP for the purposes of the Investment Business condition. As C LLP and D LLP do not have other Revenue, all of their Revenue would be derived from Investment Business activity in such case. As a result, the Investment Business condition would be met for C LLP and D LLP.

If A LLP does not become a Qualifying Investment Fund, B LLC, C LLP and D LLP would instead recognise any distributions made by A LLP as Revenue. As such distributions would be Revenue derived from their investment in A LLP, the Investment Business condition would also be met for C LLP and D LLP in this case.

B LLC has an investment manager Business, which is not an Investment Business. B LLC would only meet the Investment Business condition if its Revenue from activities other than an Investment Business is less than 5%. If the fees from its investment manager Business exceed 5% of its total Revenue, the Investment Business condition would not be met.



## 5.6. Diversity of ownership condition

### 5.6.1. Overview

The diversity of ownership condition requires that no single investor (together with its Related Parties) owns:

1. 30% or more of the ownership interests, if there are 10 or fewer investors in the investment fund, or
2. 50% or more of the ownership interests, if there are more than 10 investors in the investment fund.

This condition does not apply to REITs.<sup>88</sup>

As mentioned earlier, if the diversity of ownership condition is met, the investment fund should also typically be regarded to have been marketed and made available sufficiently widely and, as a result, it would also meet the fund ownership condition.

However, it is possible for an investment fund entity to meet the fund ownership condition if it is listed on a Recognised Stock Exchange. If so, an investment fund entity (other than a REIT) would still be required to meet the diversity of ownership condition. An investment fund listed on a Recognised Stock Exchange could demonstrate that the diversity of ownership condition is met through reference to public disclosures made by investors that hold significant stakes or through its own registries.

### 5.6.2. Application of condition on indirect ownership

The number of investors is determined by reference to an investment fund's direct investors after looking through any investor that is either:

1. a Qualifying Investment Fund, or
2. tax transparent for Corporate Tax purposes (for example, an Unincorporated Partnership or a Foreign Partnership).

If any of the investors are Related Parties, these are counted as a single investor.

Whether there is an investor holding more than 30% or more than 50% is determined by looking both at:

1. whether any investor holds such an ownership interest directly, and
2. whether any investor indirectly holds ownership interests, after proportionally aggregating the ownership interests which an investor holds directly or through Related Parties. The requirement to aggregate ownership interests of Related

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<sup>88</sup> Article 2(1) of Cabinet Decision No. 81 of 2023.

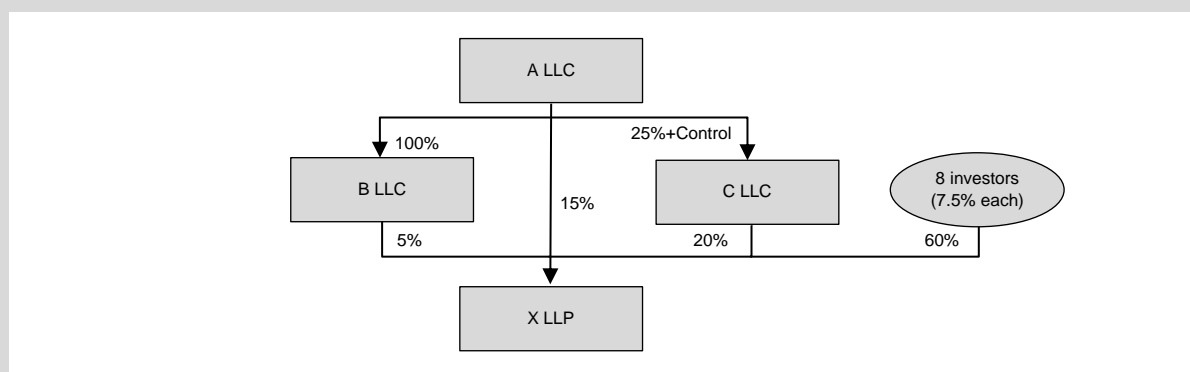


Parties applies proportionally to the extent of common ownership and does not take into account common voting rights or common control, as illustrated in the example below.

### Example 9: Ownership conditions through Related Parties

A LLC holds a 15% ownership interest in X LLP. B LLC is a wholly owned subsidiary of A LLC and holds a 5% ownership interest in X LLP. A LLC has Control of C LLC and also holds a 25% ownership interest in C LLC. C LLC holds a 20% ownership interest in X LLP. The remaining 60% of ownership interests in X LLP is held by 8 investors, each holding 7.5%.

None of the investors in X LLP are a Qualifying Investment Fund or tax transparent for Corporate Tax purposes. Other than the Related Party relationships between A LLC, B LLC and C LLC, none of the investors are Related Parties.



X LLP has 11 direct investors. A LLC, B LLC and C LLC are Related Parties, as A LLC owns a 50% or greater ownership interest in B LLC and A LLC Controls C LLC.<sup>89</sup> Therefore, A LLC, B LLC and C LLC are counted as a single investor for determining whether X LLP has more than 10 investors. Based on this, X LLP would have 9 investors. This means the diversity of ownership condition is met if no single investor holds an ownership interest of 30% or more.

None of the direct investors holds an ownership interest of 30% or more.

A LLC's proportional aggregate ownership interest in X LLP is 15% (held directly) + 5% (held through B LLC) + 5% (25% \* 20%, proportional stake held through C LLC) = 25%. Therefore, A LLC does not indirectly hold an aggregated ownership interest of 30% or more.

Based on this, the diversity of ownership condition is met for X LLP.

<sup>89</sup> Article 35(1)(c) of the Corporate Tax Law.



### 5.6.3. Application to feeder funds

As indicated above, a feeder fund entity can become a Qualifying Investment Fund if the conditions are met, including the diversity of ownership condition.

If a feeder fund is a Qualifying Investment Fund or tax transparent for Corporate Tax purposes (for example, as an Unincorporated Partnership or a Foreign Partnership), the diversity of ownership condition at the level of the master fund is assessed by looking through the feeder fund.

However, in other cases, the feeder fund is counted as one investor for the diversity of ownership condition. If there are several feeder entities and the Investment Manager has been appointed as Investment Manager for all of them, the feeder entities may be considered Related Parties if the Investment Manager has Control over the feeder funds.<sup>90</sup>

#### **Example 10: Diversity of ownership in feeder funds**

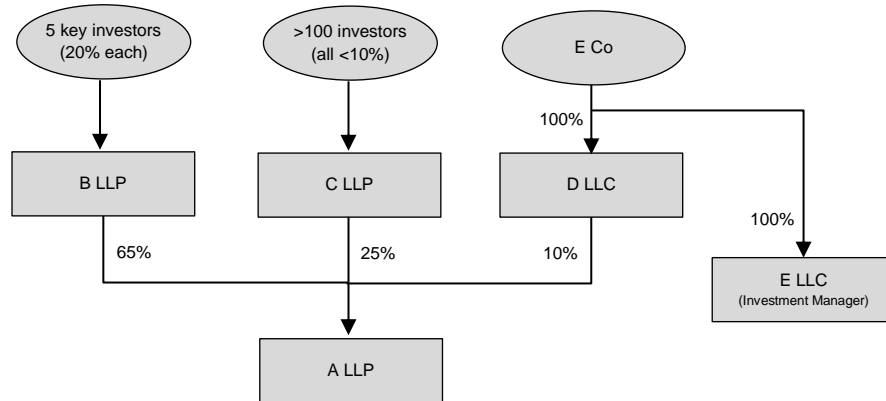
A LLP is an investment fund with E LLC as the Investment Manager. The investors in A LLP include B LLP (which owns 65%), C LLP (which owns 25%), and D LLC (which owns 10%). E LLC is the Investment Manager of A LLP, B LLP, C LLP and D LLC.

A LLP, B LLP, C LLP, D LLC and E LLC are all juridical persons incorporated in the UAE.

The investors in B LLP consist of 5 key investors, who each hold 20% of B LLP (i.e. a 13% indirect stake in A LLP). The investors in C LLP consist of more than 100 pension funds and other institutional investors and none of them hold a stake of more than 10% in C LLP (i.e. all hold an indirect stake of less than 3% in A LLP). None of the investors in B LLP and C LLP are Related Parties.

D LLC is wholly owned by E Co, a company established outside the UAE. E Co is listed on a Recognised Stock Exchange and wholly owns E LLC, which is the Investment Manager appointed to A LLP, B LLP and C LLP.

<sup>90</sup> Article 35(1)(c)(3) of the Corporate Tax Law.



Any investment fund entity in this structure can apply to become a Qualifying Investment Fund, if it meets the relevant conditions (including the diversity of ownership condition).

A LLP ultimately has more than 100 investors, but it only has 3 direct investors, including one investor (B LLP) that holds an ownership interest of 65%. Therefore, it would not meet the diversity of ownership condition on a standalone basis. However, it could still meet the diversity of ownership condition by taking into account the owners of B LLP, C LLP and/or D LLC, if B LLP, C LLP and/or D LLC were either Qualifying Investment Funds or tax transparent.

As B LLP, C LLP and D LLC are juridical persons, they are not regarded as tax transparent for Corporate Tax purposes. If B LLP is not a Qualifying Investment Fund, it would not be possible to look through B LLP, meaning that B LLP would count as a single investor for the diversity of ownership condition and as a result, the diversity of ownership condition would not be met, as one investor would hold 65%.

However, if B LLP is a Qualifying Investment Fund, it would be possible to look through B LLP. In this case, A LLP would have 7 investors (or more if C LLP is also a Qualifying Investment Fund) and no single investor would hold a stake of more than 30% on a standalone basis.

D LLC is 100% owned by E Co and would not meet the diversity of ownership test.

As B LLP has 5 investors and none of them hold more than 30% in B LLP, B LLP would meet the diversity of ownership condition. Therefore, it could apply to become a Qualifying Investment Fund, if the other conditions are also met.



As C LLP has more than 100 investors and none of them hold more than 50% in C LLP, C LLP would also meet the diversity of ownership condition. Therefore, it could apply to become a Qualifying Investment Fund, if the other conditions are also met.

#### 5.6.4. Application to parallel funds

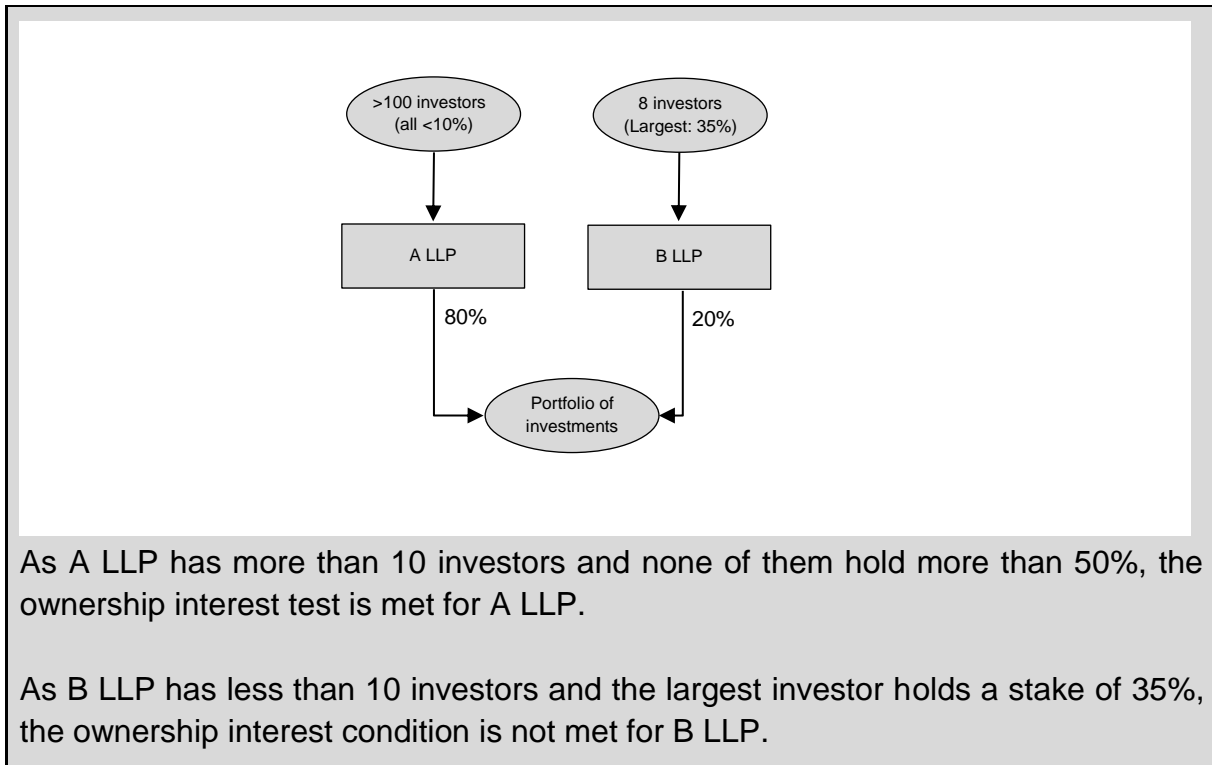
Investment funds are sometimes structured as a series of separate funds that have agreed to align their investment policies and always invest in the same investments. This can create a series of parallel funds, that usually have the same investment manager but different investors. Different parallel funds can have different features (for example, be incorporated in different countries) to better suit the specific needs of specific groups of investors.

Whether a parallel fund meets the ownership interest condition should be assessed for each parallel fund on a separate basis. This is because each parallel fund is legally a separate entity from the other funds.

#### **Example 11: Ownership interest through parallel funds**

A LLP and B LLP are parallel investment funds with the same Investment Manager. A LLP and B LLP are parallel funds with A LLP being marketed to a wide group of investors and B LLP being marketed to a few investors that have bespoke requirements for the fund documentation. The fund documentation for A LLP and B LLP make clear that for any investment that is approved by the Investment Manager, A LLP will invest 80% and receive 80% of the investment returns, whereas B LLP will invest 20% and receive 20% of the investment returns.

A LLP is owned by over 100 investors, none of whom hold more than 10%. B LLP is held by 8 investors and the largest holds a 35% stake (i.e. 7% on a combined basis). None of the investors in A LLP and B LLP are Related Parties.



### 5.6.5. Application during the first years of an investment fund

It is recognised that if a new investment fund is established, it may not meet the diversity of ownership condition from incorporation. This is because the investment fund may require a certain time period to demonstrate a track record, source investors and negotiate terms. In addition, regulatory and other administrative considerations could lead to a gap between launch of an investment fund and time when the required numbers of investors are onboarded. Investment funds could be set up with only a few key investors, as the Investment Managers seek to find further investors as part of subsequent closings (in this context, closings are events in which new investors are allowed to join the fund or existing investors are allowed to change their ownership interest in the fund).

The ownership interest condition is considered to be met during the first two financial years of establishment, as long as the investment fund can show that it intends to meet the condition subsequently.<sup>91</sup> The FTA would expect to see documents outlining the investment fund's strategy, including documents submitted to the competent authorities and evidence of efforts to reach investors (for example, evidence of planning or holding road shows and correspondence with potential investors). The FTA will only approve an application for Qualifying Investment Fund status if this evidence shows that the investment fund intends to attract sufficient investors as from the beginning of its third financial year.

<sup>91</sup> Article 2(3) of Cabinet Decision No. 81 of 2023.



If an investment fund entity applies for Qualifying Investment Fund status before meeting the diversity of ownership interest condition, it should submit the evidence with its application for Qualifying Investment Fund status. If Qualifying Investment Fund status is approved and the investment fund fails to meet the diversity of ownership condition after its first two financial years, it will cease to be a Qualifying Investment Fund from the beginning of its third financial year.<sup>92</sup>

### 5.7. Investment Manager condition

The Investment Manager condition requires that the Investment Manager that is managing or advising the investment fund must have a minimum of three investment professionals. This condition does not apply to REITs.

An Investment Manager is defined in the Corporate Tax Law as “a Person who provides brokerage or investment management services that is subject to regulatory oversight in the UAE”. The requirement that an Investment Manager is subject to regulatory oversight in the UAE should be assessed in line with the regulatory oversight condition discussed in Section 5.2.

The question as to whether the Investment Manager has at least three investment professionals does not necessarily require them to be full-time equivalent (FTE) employees. They can serve as independent contractors working in an individual capacity for the Investment Manager. The condition would still be met if the Investment Manager has no or very limited staff and all of its functions are subcontracted to one or more other companies in the Business of managing or advising investment funds on investment related matters. The condition does not require that the three investment professionals work exclusively for the investment fund that is applying for Qualifying Investment Fund status. For instance, the Investment Manager could manage several funds and the investment professionals could divide their time over the range of funds.

Investment professionals are those who carry out any type of activity that forms part of the Investment Managers’ core activities. This is not restricted to the most senior decision makers. It may include staff that identify and analyse investment opportunities, or assess the performance of investments. It also includes staff that negotiate investment contracts, maintain relations with advisers, investors and companies invested in and staff that help execute investments or disposals.

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<sup>92</sup> Article 2(4) of Cabinet Decision No. 81 of 2023.





As a result, investment professionals can have a wide variety of professional backgrounds. Investment Managers often designate certain staff as a “deal team”, if they focus exclusively on managing the whole process relating to a certain investment. A legal specialist that assists on the contract negotiation and manages external legal advisers could also be regarded as an investment professional. Similarly, a professional who focuses on “investor relations” could also be regarded as an investment professional.

However, a person who only performs administrative tasks relating to the Investment Manager itself (such as IT, office management or financial accounting of the Investment Manager itself), which are not considered as core to the Business Activity of the Investment Managers, would not be regarded as an investment professional.

### **5.8. Independence condition**

The independence condition requires that investors do not have control over the day-to-day management of the investment fund.<sup>93</sup> These could include routine decisions conducted in the ordinary course of Business, day to day management and supervision and operational decisions. This condition does not apply to REITs.

Merely having a right to be consulted or to give directions does not result in an investor having day-to-day control. So, for example, the right to a vote at annual general meetings would not be considered to amount to day-to-day control.

However, if an Investment Manager holds an ownership interest in the investment fund it manages, this would not prevent the fund meeting the independence condition.

Many investment funds have advisory committees or investment committees that make key decisions in relation to the investment fund. Usually, these committees consist of key investors, independent investment subject matter experts and/or representatives of the Investment Manager. It is a question of fact whether the advisory committee or investment committee exercises day-to-day management. However, it would generally not be expected that the day-to-day management role of the investment fund would be assumed by such a committee. Even if investors are represented in such committee, they would exercise their authority as a committee of the investment fund rather than in their capacity of investor. Therefore, if an investment fund has an advisory committee or investment committee which includes key investors, this fact does not by itself lead to failure to meet the condition.

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<sup>93</sup> Article 2(1)(a) of Cabinet Decision No. 81 of 2023.



## 5.9. Additional conditions applicable to REITs

### 5.9.1. REIT minimum real estate asset value condition

The REIT minimum asset value condition requires that the value of real estate assets, excluding land, under the management or ownership of the REIT exceeds AED 100 million.<sup>94</sup> The value of real estate assets should be determined based on the carrying value of real estate in the financial statements of the REIT.

As the condition refers to real estate “under the management or ownership”, the condition can be met even if the REIT does not hold the legal title of the real estate, provided the real estate is managed by the REIT. It is also possible that a REIT holds and manages its real estate assets through companies it wholly owns, such as special purpose vehicles (SPVs). If these SPVs are Exempt Persons under Article 4(1)(h) of the Corporate Tax Law and the REIT bases the allocation of the net income available for distribution to its investors on its consolidated financial statements, any real estate assets held by such Exempt Persons are also taken into account.

However, if the REIT does not base its allocation of the net income available for distribution to its investors on its consolidated financial statements, the real estate assets held by SPVs of a REIT that are Exempt Persons under Article 4(1)(h) of the Corporate Tax Law can nonetheless be aggregated for the purposes of the REIT minimum real estate asset value condition.

### 5.9.2. REIT ownership condition: Recognised Stock Exchange and Institutional Investor

The REIT ownership condition requires at least one of the following to be met:<sup>95</sup>

- 20% or more of the share capital of the REIT is floated on a Recognised Stock Exchange. This only includes shares (or ownership interests) that are available for trading on the Recognised Stock Exchange. It excludes closely held and restricted shares (i.e. shares that cannot be traded on the Recognised Stock Exchange, even if the investor is willing to trade them). The term Recognised Stock Exchange is explained in Section [5.3](#) of the guide.
- The direct owners of the REIT consist only of two or more institutional investors specified below and at least two or more of those institutional investors are not Related Parties to each other.

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<sup>94</sup> Article 3(1) of Cabinet Decision No. 81 of 2023.

<sup>95</sup> Article 3(2) of Cabinet Decision No. 81 of 2023.



The institutional investors qualifying for the second part of the REIT ownership condition are:<sup>96</sup>

1. The Federal Government.
2. A Local Government.
3. A Government Entity.
4. A Government Controlled Entity.
5. A foreign government, its institutions and authorities or the companies fully owned by any of them.
6. International organisations. This includes any multilateral organisations established by a combination of foreign governments or foreign governments together with the UAE.
7. A Bank.
8. An Insurance Provider.
9. A pension or social security fund. This includes various public pension and social security funds in the UAE or outside the UAE that manage publicly mandated pensions and social security benefits for certain categories of Persons.
10. An investment entity licensed by a relevant competent authority or a similar regulatory authority in or outside the UAE. This extends to any investment funds that are subject to regulatory oversight as investment funds.
11. Any other juridical person determined by the FTA. Currently none are specified.

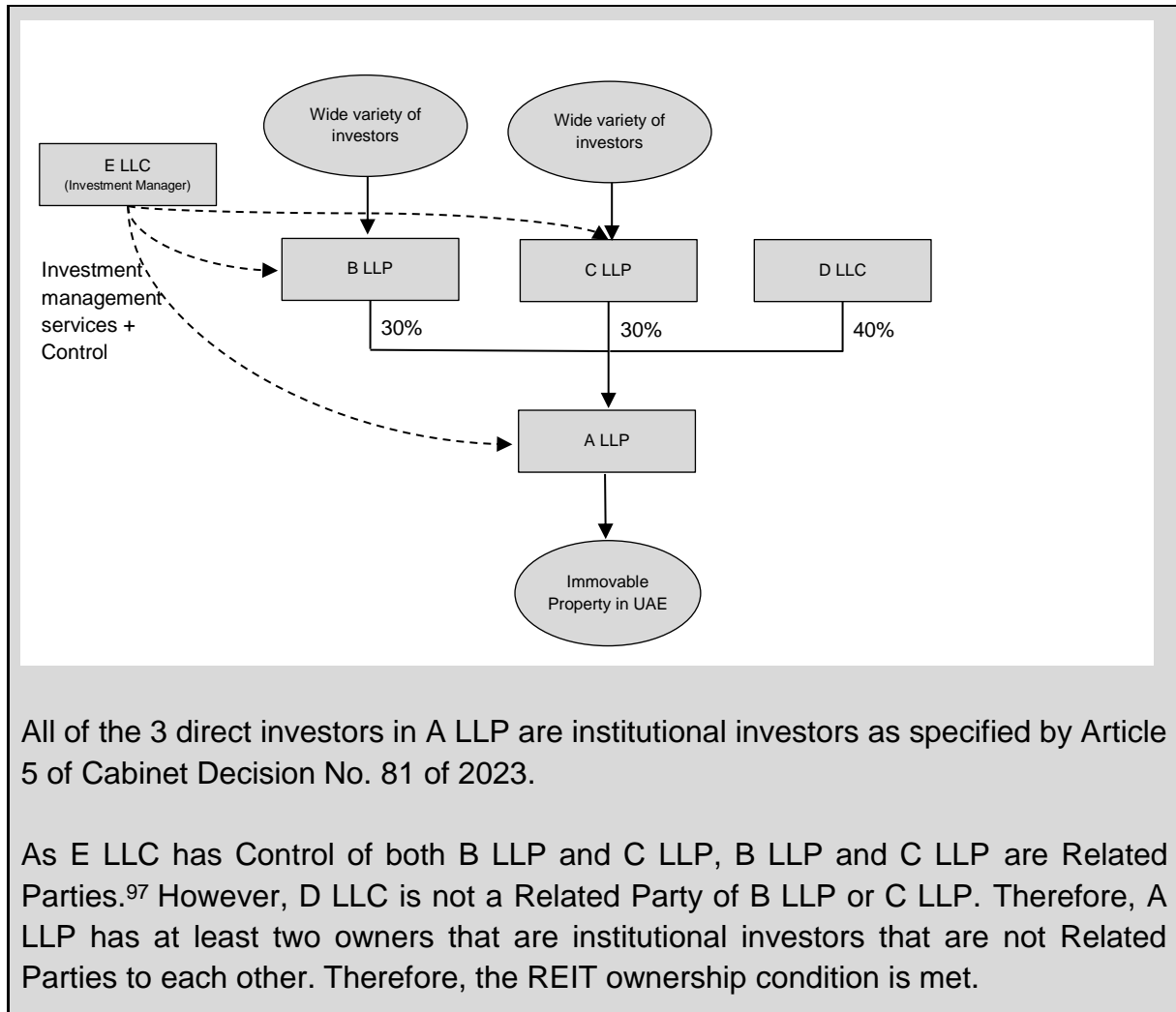
#### **Example 12: Institutional investors**

A LLP is a REIT holding Immovable Property in the UAE with E LLC as the Investment Manager. As part of those arrangements, E LLC has Control over A Co. The investors in A LLP consist of B LLP, C LLP and D LLC. B LLP and C LLP each hold 30% of the ownership interests in A LLP with the remaining 40% held by D LLP.

B LLP and C LLP are investment funds licensed by the competent authority in the UAE with a wide variety of investors and are, therefore, considered institutional investors. B LLP and C LLP have both appointed E LLC as Investment Manager and, as part of those arrangements, E LLC has Control over B LLP and C LLP.

D LLC is a Government Controlled Entity that is not a Related Party to A LLP, B LLP, C LLP or E LLC. As a Government Controlled Entity, it is an institutional investor.

<sup>96</sup> Article 5 of Cabinet Decision No. 81 of 2023.



### 5.9.3. REIT real estate percentage condition

The REIT real estate percentage condition requires that the REIT has an average Real Estate Asset Percentage of at least 70% during the relevant Gregorian calendar year, or the relevant twelve-month period for which the financial statements are prepared.<sup>98</sup> The Real Estate Asset Percentage is defined as the portion of the Real Estate Income generating assets as a percentage of the total value of the assets of the REIT.<sup>99</sup> Real Estate Income is defined as income derived from renting of land or real estate, excluding Real Estate Gains.<sup>100</sup> Real Estate Gains are defined as gains derived from the sale or disposal of land or real estate.<sup>101</sup>

<sup>97</sup> Article 35(1)(c)(3) of the Corporate Tax Law.

<sup>98</sup> Article 3(3) of Cabinet Decision No. 81 of 2023.

<sup>99</sup> Article 1 of Cabinet Decision No. 81 of 2023.

<sup>100</sup> Article 1 of Cabinet Decision No. 81 of 2023.

<sup>101</sup> Article 1 of Cabinet Decision No. 81 of 2023.



In these definitions, references to real estate should be interpreted as references to Immovable Property. Immovable Property is defined as any of the following:<sup>102</sup>

1. any area of land over which rights or interests or services can be created,
2. any building, structure or engineering work attached to the land permanently or attached to the seabed, or
3. any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

The value of Real Estate Income generating assets and total assets should be determined based on the carrying value of real estate in the financial statements of the REIT. The threshold of 70% should be computed taking the average position throughout the year, based on the average of the quarterly closing balances.

If at a particular quarter closing, the average is below 70%, the REIT real estate percentage condition will still be met, provided the average position for the financial year as a whole is still 70% or more.

It is possible that a REIT holds and manages its real estate assets through companies it wholly owns, such as SPVs. If these SPVs are Exempt Persons under Article 4(1)(h) of the Corporate Tax Law and the REIT bases the net income available for distribution to investors on its consolidated financial statements, any real estate assets and non-real estate assets held by such Exempt Persons are also taken into account.

However, if the REIT does not base its net income available for distribution to investors on its consolidated financial statements, the real estate assets and non-real estate assets held by the SPVs of a REIT that are Exempt Persons under Article 4(1)(h) of the Corporate Tax Law are nonetheless aggregated for the purposes of the REIT real estate percentage condition. In such a case, the transaction between the REIT and each SPV for example, shares in such SPVs and any other assets arising from intragroup transactions such as loans that would otherwise be eliminated upon consolidation are eliminated for the purposes of the REIT real estate percentage condition.

## **5.10. Conditions for Exempt Person status for entity held by a Qualifying Investment Fund**

### **5.10.1. Overview**

If an investment fund obtains Qualifying Investment Fund status, any juridical person incorporated in the UAE wholly owned and controlled by the Qualifying Investment

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<sup>102</sup> Article 1 of Cabinet Decision No. 56 of 2023.



Fund can also apply for Exempt Person status, if the conditions of Article 4(1)(h) of the Corporate Tax Law are met.<sup>103</sup> This requires that at least one of the following conditions is met:

1. The entity undertakes part or whole of the activity of the Qualifying Investment Fund. As the Qualifying Investment Fund undertakes an Investment Business (with any other activities being incidental or ancillary), this condition is met if the entity performs Investment Business activities (with any other activities being incidental or ancillary), exclusively for the benefit of the Qualifying Investment Fund and as an extension of the Qualifying Investment Fund.
2. The entity is engaged exclusively in holding assets or investing funds for the benefit of the Qualifying Investment Fund. It is anticipated that wholly owned and controlled companies holding investments for the Qualifying Investment Fund would meet this condition.
3. The entity only carries out activities that are ancillary to those carried out by the Qualifying Investment Fund. This condition is met if the entity only performs activities that are necessary for the Investment Business activity of the fund, even if the activities are not Investment Business activities themselves. For instance, this could apply to an entity performing administrative tasks necessary for the operation of the Qualifying Investment Fund. In addition, it could apply to an entity engaged in obtaining financing of investments (for example, in the form of bonds or bank debt), even if that entity has not made that investment itself and the entity has no Investment Business activity on a standalone basis.

If an entity wholly owned and controlled by a Qualifying Investment Fund holds an ownership interest in an entity that is transparent for Corporate Tax purposes (for example, an Unincorporated Partnership or Foreign Partnership), its activities will be assessed by taking into account a proportional part of the activities of that tax transparent entity.

#### **5.10.2. Juridical person incorporated in the UAE**

Article 4(1)(h) of the Corporate Tax Law only applies to juridical persons incorporated in the UAE. Juridical persons incorporated outside the UAE would not meet the condition, even if they are considered a Resident Person as a result of being effectively managed and controlled in the UAE.<sup>104</sup> Where a Free Zone Person is a juridical person incorporated in the UAE, it could apply for Exempt Person status if the other conditions are met.

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<sup>103</sup> Articles 4(1)(h) and 4(3) of the Corporate Tax Law.

<sup>104</sup> Article 11(3)(b) of the Corporate Tax Law.

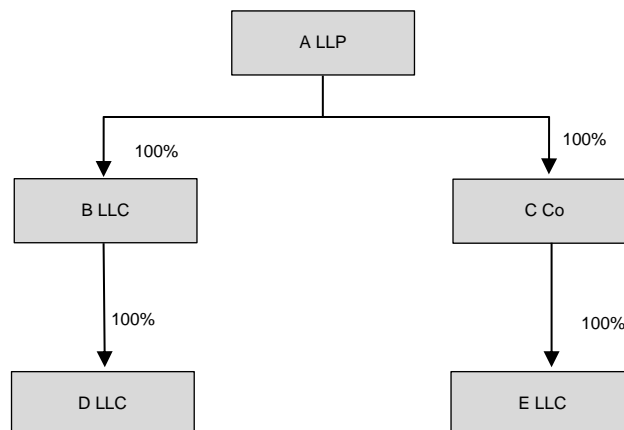


### 5.10.3. Wholly owned and controlled by Qualifying Investment Funds

Article 4(1)(h) of the Corporate Tax Law only applies to juridical persons wholly owned and controlled by the Qualifying Investment Fund. This requires that the Qualifying Investment Fund legally and beneficially owns all the shares and that it holds all the voting rights related to that juridical person. The conditions of “wholly owned” and “controlled” should both be met continuously throughout the applicable Tax Period. These conditions are met if the Qualifying Investment Fund wholly owns and controls the shares directly. In case of indirect ownership and control, the condition is only met if the Qualifying Investment Fund wholly owns and controls through an uninterrupted chain of entities that have similarly applied for Exempt Person status.

#### Example 13: Wholly owned and controlled by Qualifying Investment Fund conditions

A LLP is a Qualifying Investment Fund. A LLP wholly owns and controls B LLC and C Co. B LLC wholly owns and controls D LLC. C Co wholly owns and controls E LLC.



B LLC, D LLC and E LLC are juridical persons incorporated in the UAE. C Co is a juridical person incorporated outside the UAE, but effectively managed and controlled in the UAE.

B LLC, C Co, D LLC and E LLC are engaged exclusively in holding assets on behalf of A LLP.

B LLC is a juridical person incorporated in the UAE directly wholly owned and controlled by A LLP and engaged exclusively in holding assets on behalf of A LLP and can, therefore, apply for Exempt Person status.



C Co is a juridical person incorporated outside the UAE. Therefore, it cannot apply for Exempt Person status under Article 4(1)(h) of the Corporate Tax Law.

D LLC is a juridical person incorporated in the UAE wholly owned and controlled by A LLP, indirectly through B LLC and engaged exclusively in holding assets on behalf of A LLP. D LLC can, therefore, also apply for Exempt Person status, if B LLC has also applied for Exempt Person status under Article 4(1)(h) of the Corporate Tax Law.

E LLC is a juridical person incorporated in the UAE wholly owned and controlled by A LLP, indirectly through C Co. As C Co cannot apply for Exempt Person status, E LLC cannot apply for Exempt Person status either, as A LLP would not hold its stake in E LLC through an uninterrupted chain of Exempt Persons.





## 6. Corporate Tax compliance requirements

### 6.1. Applying for Qualifying Investment Fund exemption

An investment fund entity can only apply for the exemption after it has been registered with the FTA and obtained a Tax Registration Number for Corporate Tax purposes.<sup>105</sup> When the Qualifying Investment Fund conditions are met, an investment fund can make an application to the FTA for exemption from Corporate Tax.

This application should specify for which Tax Period the Qualifying Investment Fund intends to be an Exempt Person. Upon the review of the application, the FTA shall either accept or reject the application and specify from which Tax Period the Qualifying Investment Fund status applies. The FTA shall also specify the reason in case of a rejection.

Where an application is approved, the Qualifying Investment Fund will be an Exempt Person and will not be subject to Corporate Tax.

### 6.2. Earliest date an application can be effective

The Exempt Person status will apply from the start of the Tax Period specified in the application, if the application is approved by the FTA. The FTA can apply a different starting date for the Qualifying Investment Fund, as follows:<sup>106</sup>

- a. If the Tax Period specified in the registration form is incorrect, the Qualifying Investment Fund status shall be effective as from the correct date.
- b. If the applicant is acquired during a Tax Period by a Qualifying Investment Fund, an application under Article 4(1)(h) of the Corporate Tax Law will not be granted if the conditions were not met at the start of the Tax Period. The FTA shall determine another date from which the exemption is granted to ensure that the date of exemption starts after meeting all remaining conditions.
- c. If the Tax Period included in the application is incorrect and the FTA receives sufficient supporting evidence that the conditions have been met in the later Tax Periods, the exemption shall be effective from the date of meeting the conditions.

The FTA requires an annual declaration confirming that the exemption conditions are maintained, no later than nine months from the end of the relevant Tax Period.<sup>107</sup> In addition, a Qualifying Investment Fund should maintain all records that enable its exempt status to be readily ascertained by the FTA for a period of 7 years following the end of the Tax Period to which they relate.<sup>108</sup>

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<sup>105</sup> Article 51(2) of the Corporate Tax Law.

<sup>106</sup> Article 3(3) of FTA Decision No. 7 of 2023.

<sup>107</sup> Article 2 of FTA Decision No. 11 of 2023.

<sup>108</sup> Article 56(2) of the Corporate Tax Law.



## 7. Investment Manager Exemption

### 7.1. Overview

The Investment Manager Exemption intends to prevent regulated UAE-based investment managers and brokers triggering a liability to Corporate Tax for foreign investors in common commercial fact patterns.

This should allow Investment Managers to provide discretionary investment management services and to enter into transactions on behalf of foreign customers without triggering a Permanent Establishment for the foreign investor or a foreign investment entity.

Under the Permanent Establishment definition in Article 14 of the Corporate Tax Law, a Non-Resident Person could have a Permanent Establishment in the UAE if a Person has and habitually exercises an authority to conduct a Business or Business Activity in the UAE on behalf of a Non-Resident Person if any of the following conditions are met:<sup>109</sup>

1. a Person habitually concludes contracts on behalf of the Non-Resident Person, or
2. a Person habitually negotiates contracts that are concluded by the Non-Resident Person without the need for material modification by the Non-Resident Person.

However, a Permanent Establishment would not arise as a result of a Person conducting such activities on behalf of the Non-Resident Person as an independent agent acting in the ordinary course of the agent's Business.<sup>110</sup>

Without the Investment Manager Exemption, the activities of an Investment Manager may trigger a Permanent Establishment in the UAE for a Non-Resident Person. This risk may be perceived to arise where the Person invests in a fund managed by an Investment Manager based in the UAE, or engages an Investment Manager based in the UAE as broker, or where it engages an Investment Manager based in the UAE in any other capacity to manage its investments.

In all these scenarios, the Investment Manager may negotiate or conclude investment contracts on behalf of the Non-Resident Person. Even though it is expected that, as a Business that is separate from the Non-Resident Person, the Investment Manager acts in an independent capacity in the ordinary course of its Business, this condition may be perceived as imprecise and as a result, risk-adverse investors may decide not to use an Investment Manager based in the UAE.

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<sup>109</sup> Article 14(5) of the Corporate Tax Law.

<sup>110</sup> Article 14(6) of the Corporate Tax Law.



To prevent such outcomes, the UAE based Investment Manager is treated as an independent agent for the purposes of Article 14(6) of the Corporate Tax Law when acting on behalf of a foreign or Non-Resident Person provided that the conditions specified in Article 15(1) of the Corporate Tax Law are met.

The conditions for the Investment Manager Exemption are as follows:<sup>111</sup>

1. The Investment Manager is engaged in the business of providing investment management or brokerage services (the “investment manager or brokerage services condition”).
2. The Investment Manager is subject to the regulatory oversight of the competent authority in the UAE (the “regulatory oversight condition”).
3. The transactions are carried out in the ordinary course of the Investment Manager’s Business (the “ordinary course of Business condition”).
4. The Investment Manager acts in relation to the transactions in an independent capacity (the “independent capacity condition”).
5. The Investment Manager transacts on an arm’s length basis with the Non-Resident Person and receives due compensation for the provision of services (the “arm’s length condition”).
6. The Investment Manager is not the Non-Resident Person’s representative in the State in relation to any other income or transaction that is subject to Corporate Tax for the same Tax Period (the “no other representation relation condition”).
7. Any such other conditions as may be prescribed in a decision issued by the Cabinet at the suggestion of the Minister (currently there are none).

The Investment Manager Exemption applies automatically if the conditions are met. In other words, no election or application is required for the Investment Manager Exemption.

## 7.2. Impact of not meeting the Investment Manager Exemption

If the conditions of the Investment Manager Exemption are not met, this does not mean that the Non-Resident Person automatically has a Permanent Establishment in the UAE. It should instead be assessed whether the activities of the Investment Manager create a Permanent Establishment for the Non-Resident based on the application of Article 14 of the Corporate Tax Law.

For instance, if a Non-Resident Person engages an Investment Manager to write a report for general information purposes, these services are unlikely to be investment management or brokerage services. As a result, the conditions for the Investment Manager Exemption would not be met. However, the Investment Manager is not conducting a Business or Business Activity on behalf of the Non-Resident Person in such circumstances. Therefore, such an activity, by itself, would not result in the

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<sup>111</sup> Article 15(1) of the Corporate Tax Law.



Investment Manager creating a Permanent Establishment of the Non-Resident Person within the meaning of Article 14 of the Corporate Tax Law, even though the conditions of the Investment Manager Exemption are not met.

In this case and other cases where the conditions of the Investment Manager Exemption are not met, Article 14 of the Corporate Tax Law should be applied to assess whether the Non-Resident Person has a Permanent Establishment in the UAE. Further, even if a Permanent Establishment exists under Article 14 of the Corporate Tax Law, a Taxable Person can assess whether any relief from Corporate Tax is available under a relevant Double Taxation Agreement.

### **7.3. Investment management or brokerage services condition**

The Investment Manager Exemption is available if the Investment Manager is engaged in the Business of providing investment management or brokerage services. These items are described separately below.

#### **7.3.1. Investment managers services**

Investment management services generally relate to managing investments on behalf of another person (the investor or investment funds). Such services can include:

- acting as general partner, manager, investment manager or adviser for an investment fund on behalf of the fund's investors,
- managing an investment mandate or "managed account" provided by a single investor or a group of investors,
- offering investment opportunities to investors, whether directly or through an investment fund,
- representing an investment fund or any investor in contract negotiation, implementation of transactions or in signing of legal documents,
- monitoring and reporting to investors on strategy, investment performance and consistency with fund's or investor's investment objectives, strategies and policies,
- recommending and negotiating changes to investment objectives, strategies and policies of investment funds and agreed mandates,
- performing and sharing investment related research, or
- any such other services that result in management of investments on behalf of another person.

For each of these services, the Investment Manager should ensure they have the appropriate Licences in the UAE.

Investment management services should also be considered to include investment advisory services. This means the Investment Manager Exemption could be available



where the Investment Manager provides investment advice, which is decided upon by either:

- the Non-Resident Person that is seeking to rely on the Investment Manager Exemption, or
- another person.

If the other person deciding on investment advice is deciding in the UAE on behalf of the Non-Resident Person, it could be assessed whether the Investment Manager Exemption is met in relation to such other person.

An Investment Manager may subcontract part of its investment manager activities to an investment sub-advisor. This typically occurs where an Investment Manager is part of a group of entities in which Related Parties of the Investment Manager have employed staff with relevant expertise. The fact that an Investment Manager has subcontracted part of its services to another party does not change the nature of the service provided to the Non-Resident Person and, as a result, the investment management services (or brokerage services) condition can still be met.

It is unlikely that investment sub-advisory would result in the investment sub-advisor conducting Business on behalf of the investor that ultimately uses the advice. However, if an investment sub-adviser conducts Business on behalf of a Non-Resident Person, the Investment Manager Exemption could also apply to such Business, provided the other conditions are met.

### **7.3.2. Brokerage services**

Brokerage services are intermediary services. Examples include acting as intermediary for investments, financial derivatives, funding arrangements (including raising of loans or equity), concluding commercial contracts and the purchase of real estate. In all these transactions, the broker is an agent who connects both parties to facilitate a transaction.

Brokerage services play a crucial role in facilitating financial transactions and investments for individuals and institutions. These services are generally provided by licensed brokerage firms that are regulated in the UAE. Brokerage services can apply to stock trading, forex trading, commodity trading, derivative trading, as well as off-market transactions, such as transactions related to real estate purchases.

The nature of the service provided by the broker may differ depending on the commercial circumstances. For instance, for transactions in listed securities, investors often engage brokers to obtain their immediate access to the financial markets that allow them to transact quickly. However, for private transactions, investors may use



brokers to get access to a network of counterparties that they would not otherwise be aware of.

Brokers often facilitate negotiation and may formally represent either (or both) parties for certain steps in a transaction. This means there may not always be a clear dividing line between brokerage and investment management. As the Investment Manager Exemption applies to both brokerage and investment management services, it also applies to transactions and arrangements which have elements of both.

#### **7.4. Regulatory oversight condition**

The Investment Manager Exemption only applies if the investment management or brokerage services are subject to regulatory oversight in the UAE.<sup>112</sup>

In the UAE, the competent authorities are currently the SCA, the DFSA and the FSRA. Brokers or investment managers that have been authorised by any of these authorities to perform brokerage or investment management activities should meet the regulatory oversight condition.

#### **7.5. Ordinary course of Business condition**

The Investment Manager Exemption only applies if the transactions are carried out in the ordinary course of Business of the Investment Manager.<sup>113</sup> The expression “ordinary course of Business” is in relation to investment management and brokerage-related services. If the Investment Manager has Business Activities that are not investment management or brokerage services, the Investment Manager Exemption will not apply to those other Business Activities. The ordinary course of Business condition will usually be met if an Investment Manager carries out activities that are consistent with their Business as Investment Manager.

The fact that an Investment Manager performs activities outside their core area of expertise does not prevent this condition from being met. For instance, if an Investment Manager specialising in private equity funds also manages a debt fund, this should still be considered to fall within their ordinary course of Business. Similarly, an Investment Manager specialising in managing REITs could also separately manage an equity fund on behalf of a Non-Resident Person. The lack of track record or specific experience in relation to the transactions performed by the Investment Manager should not prevent the ordinary course of Business condition being met, as it can be expected that Investment Managers would often seek to expand and/or diversify the type of transactions they conduct.

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<sup>112</sup> Article 15(1)(b) of the Corporate Tax Law.

<sup>113</sup> Article 15(1)(c) of the Corporate Tax Law.



Managing investment funds or investors can create sufficient work for a sizeable team of investment management professionals. Therefore, if the Investment Manager's Business Activity consists exclusively or almost exclusively of managing one investment fund or one client account, this does not prevent the ordinary course of Business condition being met. However, in such a case it should be assessed whether the Investment Manager still meets the independent capacity condition (see below).

Given the nature of investment management and brokerage Business Activity, the Investment Manager Exemption is not intended to apply in respect of operational or commercial contracts that have no investment purpose. In line with this, the ordinary course of Business condition requires that the Investment Manager performs its services in relation to "transactions", which are limited to the following transactions that can be considered customary for investment management and brokerage services:<sup>114</sup>

1. transactions in commodities, real property, bonds, shares, derivatives or securities of any other description,
2. transactions of buying or selling any foreign currency or placement of funds at interest, and
3. such other transactions permissible to be carried out by the Investment Manager on behalf of a Non-Resident Person under the applicable (non-tax) legislation of the UAE.

## 7.6. Independent capacity condition

The Investment Manager Exemption only applies if the Investment Manager acts in relation to the transactions in an independent capacity.<sup>115</sup> This would be the case if it is not bound by detailed instructions or comprehensive control on how to perform its services and use its professional discretion to optimise investment decisions or connect parties as part of a transaction where they act as broker. In such cases, the Non-Resident Person would rely on the special skill and knowledge of the Investment Manager, which supports that the Investment Manager is acting in an independent capacity. However, it may be more difficult for an Investment Manager to maintain and demonstrate an independent capacity if either:

- the Non-Resident Person is a Related Party, or
- the Investment Manager is legally or economically dependent or acts exclusively or almost exclusively on behalf of the Non-Resident Person.

If the Non-Resident Person is a Related Party, the independent capacity condition could still be met if the Investment Manager acts in an independent capacity based on its actual conduct. This could be the case if the Investment Manager performs similar

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<sup>114</sup> Article 15(2) of the Corporate Tax Law.

<sup>115</sup> Article 15(1)(d) of the Corporate Tax Law.



services for Persons who are not a Related Party, and it conducts those services in a similar way. Alternatively, it could be the case if procedures are put in place to prevent the Non-Resident Person from direct interference with the investment management services and such procedures are adhered to.

If the Investment Manager performs services exclusively or almost exclusively for one Non-Resident Person, situations could arise where the Investment Manager is economically dependent on the Non-Resident Person. If so, the Investment Manager may struggle to keep providing investment management services in an independent capacity, as it might feel pressured to more closely follow suggestions made by the Non-Resident Person. However, this fact is not by itself determinative and all facts and circumstances need to be taken into account to determine whether the Investment Manager acts in an independent capacity. If the Investment Manager acts in an independent capacity based on its actual conduct, the independent capacity condition would still be met provided the transactions and arrangements are consistent with the arm's length standard. This means it would use its professional judgement and discretion in the investment management services rather than relying on instructions by the Non-Resident Person.

In the case of investment funds, an Investment Manager's ability to act independently is usually protected by the fact that it cannot easily be replaced. As the Investment Manager's position is effectively "locked in", the Investment Manager would not be economically dependent on the investors of the investment fund. Although the Investment Manager would earn all or almost all of its income from the investment fund itself, it would usually control the decision making of the investment fund and therefore would not be dependent on the instructions of the investment fund. As a result, the Investment Manager would usually be able to act in an independent capacity in such cases.

Whether the Investment Manager acts in an independent capacity should be tested in relation to the transaction in respect of which the Investment Manager Exemption is intended to be applied. Please refer to Section [7.5](#) for the meaning of the expression "transactions".

### **7.7. Arm's length condition**

The Investment Manager Exemption only applies if investment management or brokerage transactions and arrangements are on an arm's length basis with the Non-Resident Person and, accordingly, the Investment Manager receives due compensation for its services.<sup>116</sup>

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<sup>116</sup> Article 15(1)(e) of the Corporate Tax Law.





It is possible that an Investment Manager provides investment management or brokerage services to Related Parties. In such a case, this condition will be met if the services are remunerated consistent with the arm's length standard. If a retroactive "true-up" adjustment is made to Taxable Income to comply with the arm's length standard, this is considered remuneration consistent with the arm's length standard.

If the fee for the Investment Manager is the result of a third-party arrangement and subject to arm's length commercial negotiations, it would be considered arm's length and the arm's length condition would be met.

For example, if an Investment Manager enters into an investment management agreement with an investment fund established by it (or one of its Related Parties), the fees paid by the investment fund will economically be borne by the investors in the investment fund. Investors that are not Related Parties of the Investment Manager will only invest in the investment fund if they agree to the fee structure. If third-party investors agree to the fund documentation that specified the fee arrangements, those fees would be regarded arm's length. If the majority of ownership interests in an investment fund is held by such third-party investors who agreed to the fee arrangements in such a way that the same or lower fees are charged, yet the equivalent amount is economically borne by any Related Parties that hold an ownership interest in the investment fund, then the arm's length condition would be met.

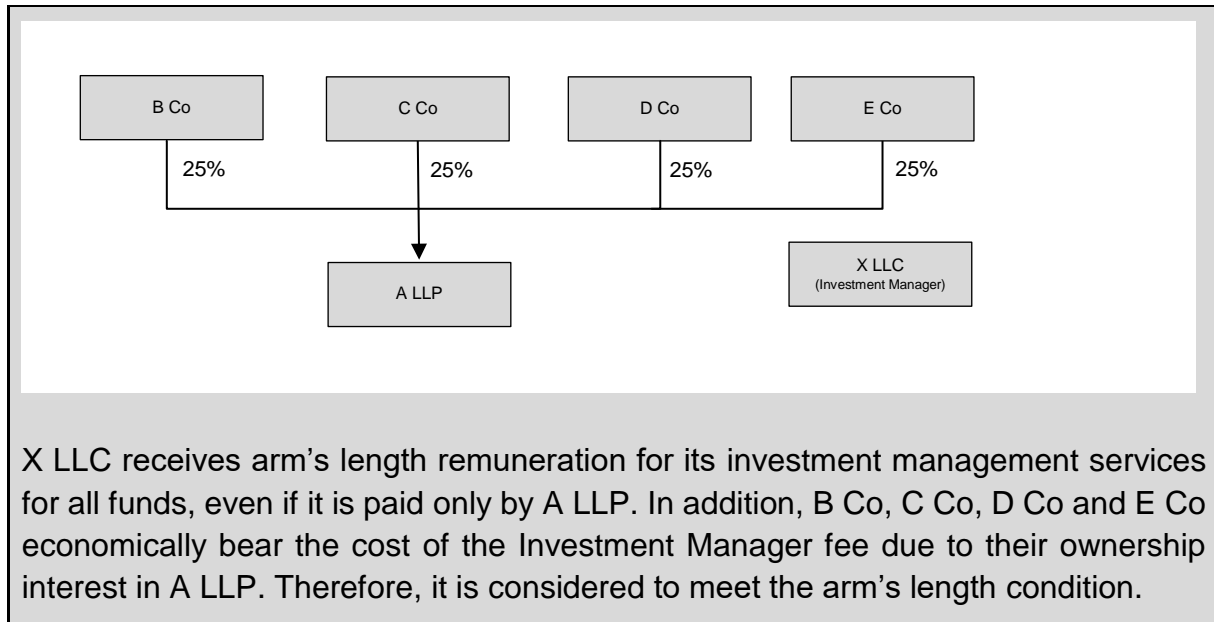
If a fund structure includes several entities, it is possible that the Investment Manager received an arm's length remuneration only from a single entity which remunerates services provided to several entities included in a fund structure. In this case, the arm's length condition will be met.

#### **Example 14: Arm's length condition**

A LLP is an investment fund with X LLC as Investment Manager. The investors in A LLP include B Co, C Co, D Co and E Co (each of which owns 25% in A LLP). B Co, C Co, D Co and E Co have been set up for different sets of investors.

X LLC provides Investment Manager services to A LLP, B Co, C Co, D Co and E Co. A LLP pays an annual management fee for the Investment Manager services equal to 2% of the invested capital of A LLP. This fee is an arm's length remuneration for X LLC's Investment Manager services for A LLP, B Co, C Co, D Co and E Co.

B Co, C Co, D Co and E Co do not pay an additional fee for Investment Manager services provided by X LLC.



Similarly, if the Investment Manager has agreed to offer certain co-investment opportunities to key investors without a specific remuneration, the arm's length condition is also considered to be met, provided the overall compensation that the Investment Manager receives for its services is an arm's length amount.

Investment funds can allow staff of the Investment Manager to co-invest. Often, this co-investment is structured as carried interest. This means that the carried interest holders would only receive a return if the investment fund has received a return on investment above a certain rate (the "hurdle rate"). Once the hurdle rate has been reached, a portion of any additional return (for example, 20%) is allocated to the carried interest holders.

The carried interest holders are often (but not always) grouped in a separate fund vehicle which is also managed by the Investment Manager. This is effectively a feeder fund. The Investment Manager may or may not charge a fee to the carried interest holders. However, the carried interest holders would only receive a return on investment once all expenses of the main fund have been paid, including the management fee charged by the Investment Manager. As mentioned earlier, this could arise from the commercial arrangement between parties and it is possible that the Investment Manager received an arm's length remuneration only from a single carried interest holder which remunerates services provided to several such holders. In this case, the arm's length condition will be met as long the overall compensation is in accordance with the arm's length standard for managing a carried interest vehicle.

### 7.8. No other representation relation condition

The Investment Manager Exemption only applies if the Investment Manager does not represent the Non-Resident Person in relation to any other income or transaction that



is subject to Corporate Tax in the UAE.<sup>117</sup> This means that if the Investment Manager represents the Non-Resident Person in relation to any matter not connected with the Investment Manager's role as an investment manager and this representation has triggered a Permanent Establishment in the UAE under Article 14(1)(b) of the Corporate Tax Law, the Investment Manager Exemption will not apply in relation to any representation of such Investment Manager.

If a Non-Resident Person is liable to Corporate Tax due to receiving State Sourced Income (not currently applicable), or a nexus outlined in Cabinet Decision No. 56 of 2023, their liability to Corporate Tax is the result of receiving income of a certain type. In other words, the Non-Resident Person's liability to Corporate Tax would have occurred regardless of whether an Investment Manager has represented them in relation to such transactions. Therefore, if a Non-Resident Person is liable to Corporate Tax only as a result of State Sourced Income (not currently applicable), or a nexus outlined in Cabinet Decision No. 56 of 2023, the no other representation relation condition could still be met.

If a Non-Resident Person already has an existing Permanent Establishment that is unrelated to the activities of the Investment Manager, it is still possible to meet the no other representation relation condition.

For example, if a foreign company ("Company X") leases a shop in the UAE through which it retails its consumer products for its own account, that shop may constitute a fixed place of Business and Company X may have a Permanent Establishment in the UAE. If the foreign company has generated a significant amount of cash from their global operations (not connected to the Permanent Establishment in the UAE), it could use the services of an Investment Manager in the UAE to invest on its behalf. Even though Company X has a Permanent Establishment in the UAE, the Investment Manager does not act as a representative for Company X in relation to any of the activities of the Permanent Establishment. Therefore, the no other representation condition is met and it is possible to apply the Investment Manager Exemption for the return on investments earned by Company X through the Investment Manager, if the other conditions are also met.

## 7.9. Other conditions

Article 15(1)(g) of the Corporate Tax Law allows the Cabinet to set additional conditions on the Investment Manager Exemption. Currently, no additional conditions have been set.

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<sup>117</sup> Article 15(1)(f) of the Corporate Tax Law.



## 8. Updates and Amendments

Date of amendment	Amendments made
May 2024	<ul style="list-style-type: none"><li>• First version</li></ul>