



UAE Corporate Tax: Understanding Exempt Income A Guide for Investors

Introduction

Since the introduction of UAE Corporate Tax, investors have increasingly asked whether the UAE remains an attractive jurisdiction for holding investments and international business interests.

The short answer is yes.

While the UAE now imposes Corporate Tax at a standard rate of 9%, the legislation contains several important exemptions designed to prevent economic double taxation and to preserve the UAE's position as an international investment hub.

For many investors, understanding these exemptions is considerably more important than focusing solely on the headline tax rate.

Exempt Income – The Foundation of the UAE Investment Regime

The UAE Corporate Tax Law excludes certain categories of income from taxation. These exemptions are particularly relevant for holding companies, family offices, private investors, investment platforms and multinational groups.

The principal categories of exempt income include:

- Dividends received from UAE resident companies;
- Dividends received from qualifying foreign shareholdings;
- Capital gains derived from qualifying shareholdings;
- Income received from certain qualifying investment funds; and
- Income derived from certain qualifying Real Estate Investment Trusts (REITs).

As a result, significant investment returns may fall outside the UAE Corporate Tax net when the relevant statutory conditions are satisfied.

Exemption for Domestic Dividends

Dividends received by a UAE taxable person from another UAE resident juridical person are generally exempt from Corporate Tax.

This exemption prevents multiple layers of taxation within a UAE corporate group and facilitates efficient profit repatriation between UAE entities.

For investors operating through UAE holding structures, this is a fundamental feature of the UAE tax system.

Participation Exemption – Dividends and Capital Gains from Shareholdings

The participation exemption is one of the most important provisions of the UAE Corporate Tax regime.

Subject to specific conditions, dividends, capital gains and certain related income derived from qualifying ownership interests may be exempt from Corporate Tax.

The exemption is intended to ensure that returns from long-term strategic investments are not taxed multiple times across different jurisdictions.

For example, where a UAE holding company holds a qualifying ownership interest in a foreign subsidiary, dividends received from that subsidiary and gains realised on a future disposal of the shares may qualify for exemption from UAE Corporate Tax, provided the participation exemption requirements are met.

Key Conditions

While each case must be reviewed individually, the principal conditions generally include:

Minimum Ownership Threshold

The UAE taxpayer must generally hold:

- At least 5% ownership in the investee entity; or
- An ownership interest with an acquisition cost of at least AED 4 million.

Minimum Holding Period

The ownership interest must generally be held, or intended to be held, for an uninterrupted period of at least twelve months.

Nature of the Investee

The participation exemption contains detailed conditions regarding the investee entity, including anti-avoidance provisions and requirements relating to the nature of its assets and activities.

These conditions require careful review, particularly where the investee is located in a low-tax or no-tax jurisdiction.

Entitlement to Profits and Liquidation Proceeds

The ownership interest must provide sufficient economic rights in relation to the profits and liquidation proceeds of the investee entity.

Capital Gains – A Significant Advantage for Investors

One of the most attractive features of the UAE Corporate Tax regime is the potential exemption for capital gains arising from the disposal of qualifying shareholdings.

For example, where a UAE holding company acquires and subsequently disposes of a qualifying subsidiary, any gain realised on the disposal may qualify for exemption if the participation exemption requirements are met.

This can be particularly attractive for entrepreneurs, family offices, venture capital investors and private equity structures planning future exits.

Qualifying Investment Funds

Sophisticated investors should also be aware of the special rules applicable to Qualifying Investment Funds (QIFs).

Subject to satisfying the prescribed regulatory and ownership requirements, a QIF may benefit from a preferential Corporate Tax treatment.

The detailed conditions are highly technical and should be reviewed carefully before implementation, but these provisions demonstrate the UAE's intention to remain competitive as an investment management jurisdiction.

Real Estate Investment Trusts

The UAE Corporate Tax Law also provides specific treatment for qualifying REITs.

These provisions are intended to support collective real estate investment structures and may provide favourable tax outcomes where the statutory requirements are met.

Investors should note that the tax treatment of direct real estate ownership differs significantly from the treatment applicable to qualifying REIT structures.

What Is Not Automatically Exempt?

Investors should avoid assuming that all investment income qualifies for exemption.

Trading Activities

Income derived from active trading activities, including trading in securities or other financial assets, may constitute ordinary taxable business income rather than exempt investment income.

The distinction between long-term investment holdings and trading activities is therefore critical.

Interest Income

Interest income and financing income are generally included within taxable income unless a specific exemption applies.

Investors operating financing structures should therefore undertake a separate analysis of the applicable Corporate Tax consequences.

Real Estate Activities

Income generated through real estate activities requires a detailed review of the specific facts and circumstances.

Different tax considerations may arise depending on whether the property is held by an individual, a corporate vehicle, a fund structure or a REIT.

Common Misconceptions

“All Capital Gains are exempt”

Incorrect.

Only gains derived from qualifying ownership interests that satisfy the participation exemption requirements may benefit from exemption.

“The UAE has no Tax on Investments”

Incorrect.

While important exemptions exist, many categories of investment income remain subject to Corporate Tax unless a specific exemption applies.

“If Income is exempt in the UAE, it is Tax-Free everywhere”

Incorrect.

Foreign withholding taxes, controlled foreign company rules, anti-hybrid rules, substance requirements and domestic tax rules in other jurisdictions may still apply.

Investors should therefore analyse both the UAE tax position and the foreign tax consequences before implementing any structure.

Five Questions Every Investor Should Ask Before Investing Through a UAE Entity

Before establishing a UAE holding company or making an investment through a UAE structure, investors should carefully consider the following questions:

1. Will My Income Actually Qualify as Exempt Income?

Not all investment returns benefit from the UAE's exempt income provisions. Investors should determine at an early stage whether their anticipated income will consist of qualifying dividends, capital gains, interest income, trading profits, real estate income, or another category of income, as each may be subject to different tax treatment.

2. Am I Making a Long-Term Investment or Conducting a Trading Activity?

The distinction between a strategic investment and an active trading business can have significant Corporate Tax consequences. While qualifying shareholdings may benefit from the participation exemption, profits derived from regular trading activities are generally treated differently and may be subject to Corporate Tax.

3. What Are the Tax Consequences Outside the UAE?

A UAE tax exemption does not necessarily mean that income is free from taxation elsewhere. Investors should assess potential withholding taxes, controlled foreign company (CFC) rules, exit taxation, anti-avoidance provisions and other tax implications in the jurisdictions where the investments are located or where the ultimate investors are resident.

4. Is a UAE Company the Most Appropriate Structure?

In some cases, a standard UAE company may be the right solution. In others, a foundation, family office structure, investment fund, special purpose vehicle (SPV), or alternative holding arrangement may provide greater flexibility, asset protection, succession planning benefits, or tax efficiency. The choice of structure should always be aligned with the investor's commercial and long-term objectives.

5. Have I Considered Future Exit and Succession Planning?

Investors often focus on the acquisition phase but overlook the eventual sale, transfer, or succession of the investment. Considering exit strategies, family succession arrangements, governance mechanisms, and future ownership transfers from the outset can significantly reduce complexity and tax exposure at a later stage.

By addressing these questions before investing, investors can better understand the potential benefits and limitations of the UAE Corporate Tax regime and ensure that their structure is aligned with both their commercial objectives and long-term wealth planning goals.

Key Takeaways

- The UAE's Corporate Tax regime is not solely defined by its 9% tax rate; several important exemptions may significantly reduce the effective tax burden on qualifying investments.
- Dividends received from UAE companies and certain foreign shareholdings may qualify for exemption from UAE Corporate Tax, subject to satisfying the applicable statutory requirements.
- Capital gains realised on the disposal of qualifying ownership interests may also be exempt, making the UAE an attractive jurisdiction for holding and exit structures.
- Not all investment income is exempt. Interest income, trading profits and certain real estate activities may remain subject to Corporate Tax depending on the specific facts and circumstances.
- The availability of the participation exemption depends on meeting detailed conditions, including ownership thresholds, holding periods and other legal requirements.
- Investors should assess both UAE and foreign tax consequences before implementing any structure, as exemptions available in the UAE do not automatically eliminate taxation in other jurisdictions.
- Careful planning at the outset can help maximise available exemptions, support future exit strategies and avoid unexpected tax exposure.

Conclusion

The UAE Corporate Tax regime continues to offer significant advantages for investors despite the introduction of a 9% Corporate Tax rate.

Through the participation exemption, domestic dividend exemption, and special provisions applicable to qualifying investment funds and REITs, the UAE remains one of the most attractive jurisdictions for international investment and holding structures.

However, investors should resist the temptation to rely on simplified assumptions. The availability of exempt income depends on detailed statutory requirements and should be analysed carefully before any investment structure is implemented.

A properly structured investment may benefit from substantial tax efficiencies. Conversely, a poorly structured investment may fail to qualify for exemption and result in unexpected tax exposure both within and outside the UAE.

If you or someone you know is considering investing through a UAE structure, establishing a holding company, setting up a family office, or assessing the UAE Corporate Tax implications of an investment, our team at [Meyer-Reumann & Partners](#)

would be pleased to assist. We provide practical, commercially focused advice on investment structuring, holding company arrangements, exempt income provisions, and cross-border tax considerations to help investors navigate the UAE tax landscape with confidence. Please reach out to us by emailing verena@meyer-reumann.com.

**Please note this article is for general informational purposes only and does not constitute legal advice.*

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