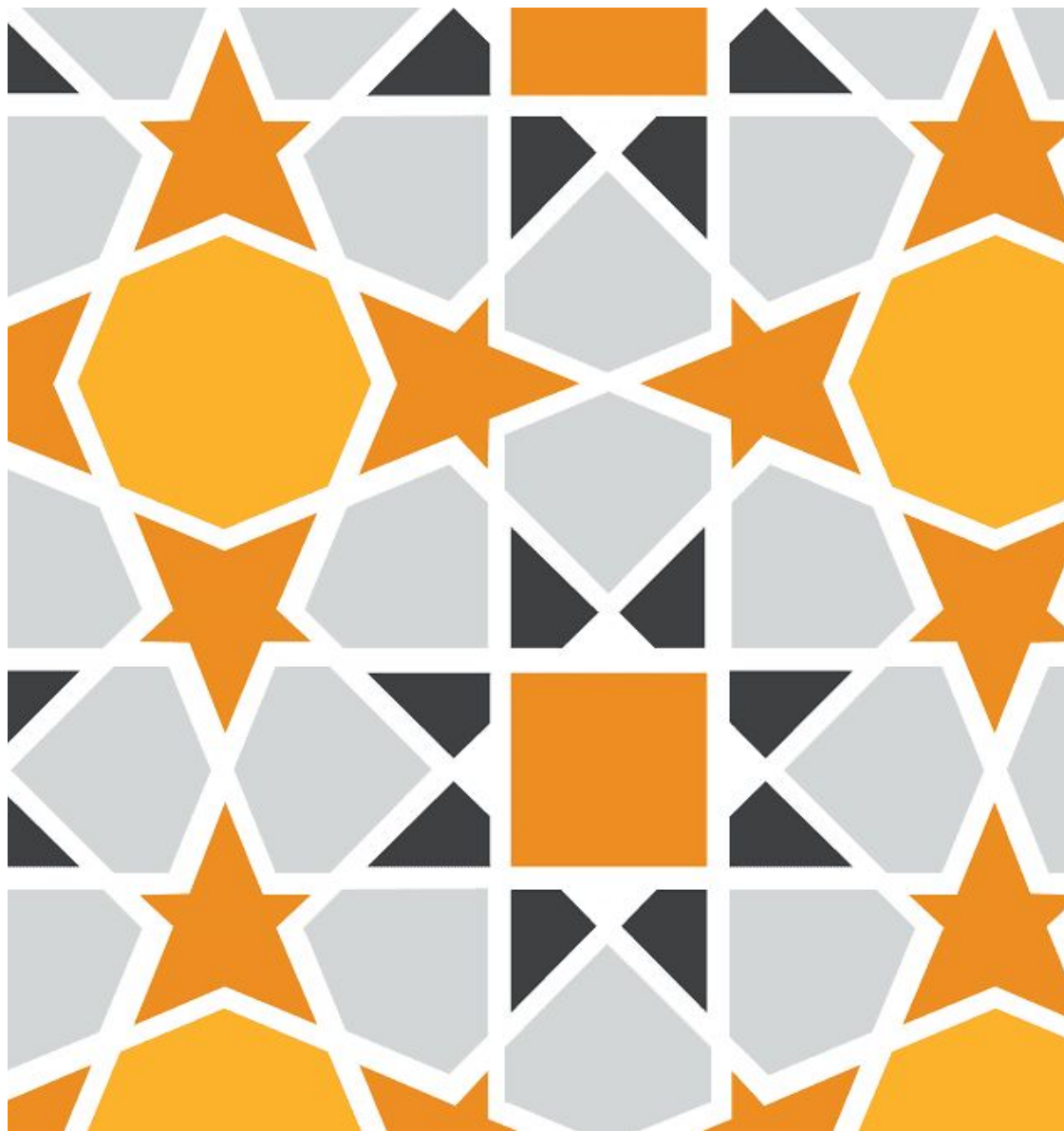


# The Evolving Tax Landscape and its Impact on IT Systems in the UAE

November 2023

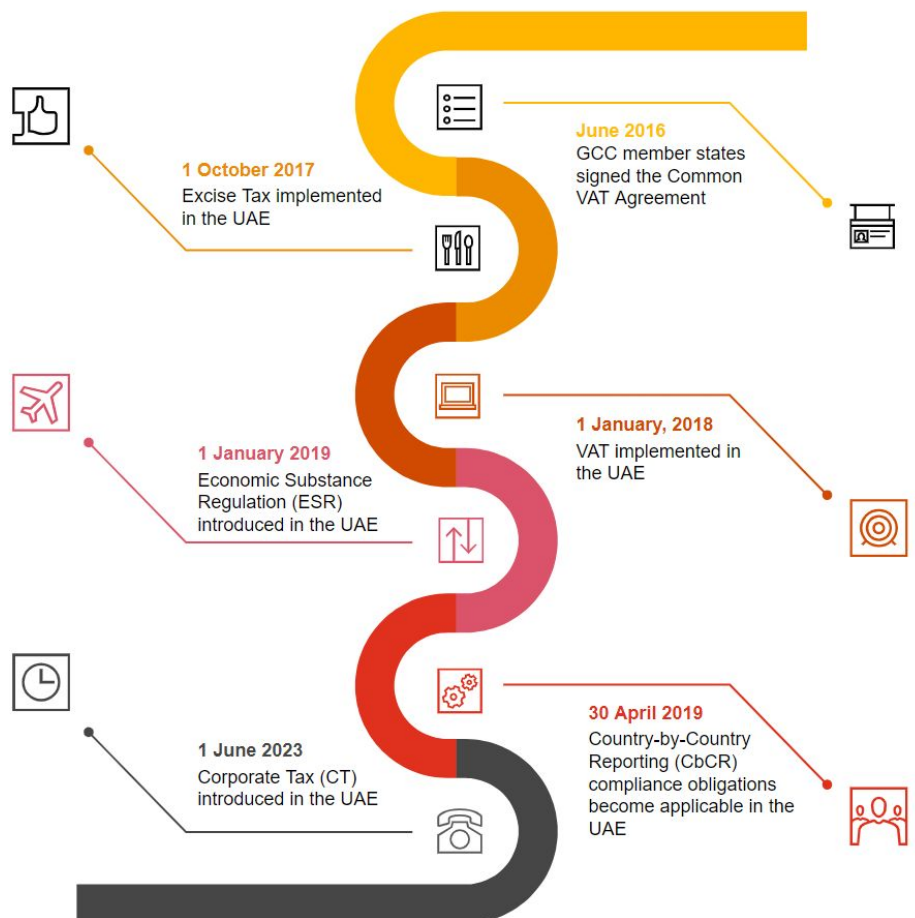




## Introduction

The United Arab Emirates (“UAE”), despite being one of the youngest nations in the Middle East region, has rapidly ascended to prominence as a distinguished commercial centre. It has not only attracted a substantial influx of international tourists but has also enticed a myriad of companies from diverse sectors to establish their operational foothold within its borders.

Historically recognized as a tax-free jurisdiction until 2017, the UAE’s tax landscape has undergone rapid and transformative changes over the past six years. The transformation commenced with the implementation of Excise Tax in 2017 and Value Added Tax (“VAT”) in 2018. Subsequently, in 2019, the nation introduced Country-by-Country Reporting (“CbCR”) and Economic Substance Reporting (“ESR”). Most notably, the year 2023 witnessed the recent introduction of Corporate Tax (“CT”). This steadfast approach reflects a noticeable trend in the evolution of the UAE’s tax landscape, mirroring its adaptability to conform to the rising demands of international standards, including the Global Anti-Base Erosion Rules (“BEPS Pillar 2”) and Environmental, Social, and Governance (“ESG”) principles, among others. All these compliance requirements can only be achieved by adopting the right technology solutions.

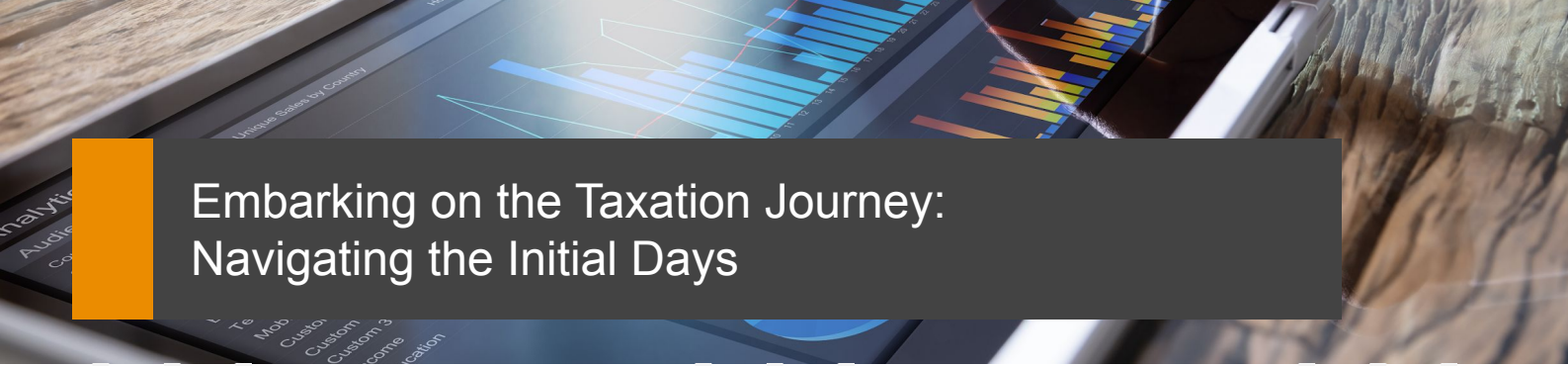


The recent tax transformation in the GCC region is of a scale not seen for generations globally. Organizations that invest in relevant 'fit for purpose' technology will be the best positioned to minimize risk and leverage these changes.

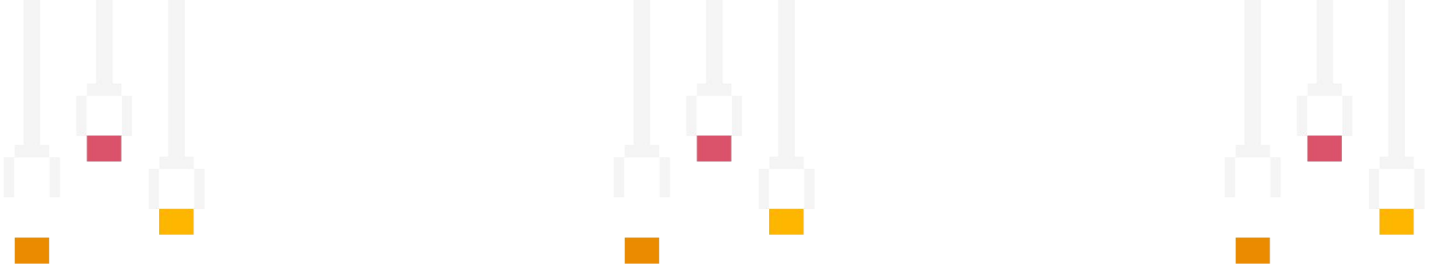
— Jay Riche

Middle East Tax Strategy & Transformation Leader





## Embarking on the Taxation Journey: Navigating the Initial Days



The history of VAT implementation can be formally traced back to June 2016, when all the Gulf Cooperation Council (“GCC”) member states agreed on a common legal framework known as the “GCC VAT Framework Agreement” with an aim to introduce VAT across the GCC region. The UAE was one of the first GCC Member States to introduce a 5% VAT as a general consumption tax imposed on the taxable supply of goods and services of each stage of the supply chain, effective from 1 January 2018. For most businesses operating in the UAE, VAT was the very first tax they encountered. The introduction of VAT pushed businesses to re-think the way they record their financial transactions in IT systems and ascertain the tax to be paid. In order to be fully compliant with the VAT regulations, we saw businesses who were traditionally capturing and calculating financials manually starting to explore various IT systems / tax specific modules available in the market; and businesses who with existing IT systems performed a thorough review of their existing IT landscape to ascertain whether there was a need to implement any additional tax modules and/or third party tax determination and reporting solutions.

One year post VAT implementation, as part of the UAE’s commitment as a member of the Organization for Economic Co-operation and Development (“OECD”) Inclusive Framework, the UAE government made further strides in enhancing its transparency and compliance by introducing ESR and CbCR to the UAE in 2019. Both of these initiatives further exacerbated the need for businesses to automate IT systems to get the required financial data for compliance purposes. Some of the key data to be pulled out from the systems included the breakdown of the key local & global financial data, and data to prove that businesses maintain adequate personnel & assets and conduct legitimate business activity locally in the UAE.

We also observed that tax authorities around the globe tend to provide some leeway to taxpayers in the initial years of implementation of a new tax regime. A similar approach appear to has been taken by the UAE. However, as the statute of limitation period concludes this year, there has been a notable increase in the Federal Tax Authority (“FTA”)’s efforts to carry out audits and assessments on taxpayers. Therefore, in order to ensure the ability to provide all necessary information and documentation during audits and/or assessments, businesses have realised the importance of maintaining accurate data in the IT systems. There are various preventive measures a business may take to ensure compliance, such as implementing a list of system controls in place, regularly monitoring and upgrading the system as needed, and configuring the system in a way that effortlessly provides the required data.



## A Glimpse into the Corporate Tax

Continuing this taxation journey, the UAE government, this year, brought about another significant transformation with the introduction of CT. The announcement of the CT regime brings the UAE in line with the international tax standards, considering the OECD introducing a global minimum tax. This all started in January 2022, when the UAE's Ministry of Finance ("MoF") proposed the introduction of CT by releasing FAQs and a high level overview of the CT regime. This was followed by the issuance of a Public Clarification document in April 2022. The Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses ("UAE CT Law") was officially released on 9 December 2022, effective from 1 June 2023. This was then followed by a number of Cabinet and Ministerial decisions as well as explanatory guides issued by MoF and FTA.

With a CT rate of just 9%, the UAE is one of the most competitive countries to have introduced CT. The UAE CT Law is drafted based on internationally accepted taxation principles and aims to keep compliance and complexities minimal. The UAE CT regime also aims to keep small taxpayers out of the CT scope, by providing beneficial provisions such as exemption threshold of AED 375,000, and relief to small businesses with annual revenue less than AED 3 million.

As a number of businesses follow a financial year from January to December, the applicability of CT will expand to the majority of businesses from January 2024. These businesses must now prepare to retrieve data to ensure UAE CT compliance from January 2024 onwards. It is crucial for businesses to assess its readiness for CT implementation now, with a primary focus on the systems and data, as it is where significant changes and time-consuming actions take place.



# Key Systems Considerations for Corporate Tax Technology

In the current business landscape, it is imperative to consider various system-related factors, particularly in the context of taxation. As mentioned earlier, indirect taxes such as VAT are typically applied at the transactional level, necessitating precise tax rate application for different types of transactions. Conversely, direct taxes like CT are levied on a company's income. Consequently, the impact on systems and data management would differ significantly between indirect and direct taxes.

In light of our extensive experience in this domain, we have conducted comprehensive reviews of businesses to assess readiness from a systems perspective, focusing on four key pillars: **Technology**, **Data**, **Sourcing model**, and **Information security**.

## Technology

The ultimate goal for businesses is to find the right technology and leveraging it as part of their day-to-day operations. Businesses could achieve this by:



Conducting a thorough assessment of existing systems' capabilities to handle CT requirements;



Evaluating scalability, performance, and customization capabilities of ERP, consolidation, and tax software systems;



Exploring options to seamlessly integrate transactional systems with financial and tax systems to minimise manual intervention;



Implementing automated tax calculation and reporting features within existing systems;



Ensuring that tax rules and rates are configurable within the systems to accommodate legislative changes;



Establishing a systematic approach for system upgrades and patch management to align with evolving tax laws and regulations;



Developing a testing and validation process to ensure that tax-related functionalities remain accurate and compliant after system updates; and



Assessing the need for acquiring new systems or modules, taking into account the complexity of the company's structure (number of entities, presence in free zones and outside of UAE), as well as depending on the result of grouping analysis (the number of CT returns to be filed will also affect the decision for whether to implement a new system / module).

# Key Systems Considerations for Corporate Tax Data

## Data

Data plays a vital role when it comes to tax compliance as well as reporting. Businesses need to meticulously assess the accuracy, integrity and accessibility of their financial data and to ensure that they meet the tax obligations. This includes:



Evaluating the various sources of financial data within the organisation, including transaction systems, spreadsheets, databases, and legacy systems;



Considering the integration capabilities of these data sources with the enterprise's ERP, accounting and/or consolidation systems;



Assessing the feasibility of real-time data integration to ensure that financial data is up-to-date for tax calculations and reporting;



Implementing data connectors, Application Programming Interfaces (“APIs”), or Extract, Transform, Load (“ETL”) processes to automate data flow seamlessly;



Establishing a data quality framework to monitor and enhance the accuracy, completeness, and consistency of financial data;



Implementing data cleansing routines to address data anomalies, duplications, and errors;



Developing data validation rules and checks to identify and rectify discrepancies in the data;



Ensuring data governance practices, including data ownership and data stewardship roles;



Defining the level of granularity required for tax calculations and reporting;



Assessing whether the Chart of Accounts (CoAs) provides adequate granularity to capture relevant tax-related details;



Considering the need to introduce additional tax-specific codes or categories within the CoA to facilitate precise tax reporting;



Establishing a data retention policy that aligns with tax regulations and legal requirements;



Implementing data archiving mechanisms to store historical financial data securely for audit and assessment purposes; and



Ensuring compliance with data privacy and retention regulations, including data masking and encryption where necessary.

# Key Systems Considerations for Corporate Tax

## Sourcing model

### Sourcing model

Any proposed changes to the systems cannot be made in isolation without given considerations to the sourcing model. The choice of sourcing model will impact the changes to be made to the systems. This includes:



Conducting a comprehensive assessment of the existing tax function's capabilities;



Identifying skill gaps and training needs within the tax team;



Evaluating the scalability of the current tax team to accommodate the increasing demands of CT compliance;



Evaluating the pros and cons of handling tax-related matters, especially CT, internally or externally;



Considering the level of control, cost-effectiveness, and resource requirements associated with each approach;



Exploring hybrid models where specific tax functions are outsourced while others remain internal;



If opting for internal handling, assessing the need for hiring or upskilling tax professionals with expertise in CT;



Considering the acquisition of specialised tax software modules or systems to assist the internal tax team;



Ensuring that internal systems support tax compliance, reporting, and workflow management for CT activities;



If outsourcing, rigorously vetting potential service providers;



Verifying their track record in delivering tax compliance services, data security measures, and adherence to regulatory standards; and



Establishing clear Service Level Agreements (SLAs) and data confidentiality agreements with selected service providers.



# Key Systems Considerations for Corporate Tax

## Information security

### Information security

Given the sensitivity of financial data, information security is a critical factor which needs to be considered by businesses. This includes:



Implementing robust access control mechanisms to restrict access to financial data based on roles and responsibilities;



Enforcing strict user authentication and authorization protocols;



Monitoring and logging data access activities for auditing purposes;



Employing encryption technologies to protect sensitive financial data, both in transit and at rest;



Regularly updating encryption algorithms and keys to maintain data security;



Implementing data masking and tokenization to anonymize sensitive information;



Conducting regular security audits to identify vulnerabilities and gaps in the information security framework;



Remediating security vulnerabilities promptly and document security incident response procedures;



Engaging third-party cybersecurity experts for penetration testing and vulnerability assessments;



Implementing data leak prevention (DLP) tools and policies to monitor data flows and prevent unauthorised data leakage;



Monitoring the usage of manual data upload templates and ensuring their security; and



Reviewing all system integrations for potential data leaks and vulnerabilities.



# Common Data Challenges

## Self-test whether your business is ready for CT

### 01. Data granularity

Can you isolate relevant tax accounts from your chart of accounts? Do you have entity level trial balance data?

### 02. Data consistency & timing

Is your data recorded in one particular format (i.e. IFRS only) or three multiple formats? Are you dependent on the financial close?

### 03. Data sources

Can you track and segregate your tax data in the ERP and/or consolidation system? How and where can you maintain tax depreciation records?

### 04. Data quality

Can you trust your data? Do you have sufficient controls in place to ensure data quality?

### 05. Accessibility & maintenance

Who has access to your data and how is security maintained? Who manages metadata (such as legal entities and accounts)?



### 06. Financial consolidation

Can your system aggregate and/or consolidate financial data? Is there automated foreign currency translation?

### 07. System calculation

Are there out-of-the-box calculations and schedules available for Corporate Tax purposes? Can you customise your system's rules?

### 08. General functionalities

Are there workflow management functionalities available such as processes, tasks, roles and hierarchy tracking?

### 09. Reporting capabilities

Can you build custom reports and output in your system or can you leverage or integrate reporting capabilities with existing Business Intelligence (BI) tools/systems?

### 10. Connectivity, security, and integration

Where and how can you access your systems and data? Can you integrate your systems with external data sources and reporting methods?

# The takeaway


The tax landscape in the UAE continues to evolve at a rapid pace. Businesses in the UAE who maintain a comprehensive understanding of emerging taxes and embrace digitalisation as a strategic development will undoubtedly be better positioned to improve its internal processes, navigate the evolving tax landscape more effectively, and ready to thrive in UAE's future tax landscape.


If you would like to discuss any of these areas further, please do not hesitate to reach out to our team.

[www.pwc.com/me](http://www.pwc.com/me)

## Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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