UAE Corporate Tax

Key insights to effectively manage the year-end tax reporting cycle

October 2024

Navigating the year-end reporting for income taxes

With the introduction of the Corporate Tax Law ("CT Law") in the United Arab Emirates ("UAE") timely preparation and implementation of new business processes to effectively manage the impact of the CT Law for **financial reporting** and **audit** is key. To achieve this businesses will need to update and align their processes with internal and external stakeholders to manage expectations and avoid any last minute surprises (e.g., additional disclosures in the income tax note of the financial statements).

To help businesses navigate the changes to business and processes and tax reporting requirements, we have provided our insights to start initiating and planning for key topics that can be managed during the **hard close** and the **year-end** reporting cycle - where feasible.

This alert is focused on the CT Law elements to the reporting cycle, but we have included several topics that should be considered if your business has operations outside of the UAE.

Topics to consider for hard close procedures

Business processes:

For many groups, tax will impact their financial performance for the first time and will require relevant processes to be adjusted to facilitate accurate and complete information on the impacts of income taxes in the UAE. To facilitate this, we recommend groups to align with all relevant stakeholders to ensure processes have been updated to reflect the impacts accordingly. This includes the following:

- Updating Chart of Accounts ("CoA") for reporting on income taxes (current, deferred, profit and loss and other comprehensive income).
- Perform a health check to identify book-to-tax adjustments in the current CoA and any opportunities that can be identified for current and future tax provisioning cycle (changes to accounting policy and process might be required).
- Reflect on the current reporting cycles and timelines to factor in the additional requirements for reporting on income taxes.

Setup of the financial statements:

The financial statements ("FS") will require adjustments and setup changes to reflect the introduction of the CT Law, we recommend timely discussions with auditors to agree on the following changes and materiality considerations:

- **Presentation:** In accordance with IAS 1 to separately present current and deferred taxes on the balance sheet, total tax expense in the profit and loss and if applicable, taxes recorded through other comprehensive income.
- **Basis of preparation:** To include the relevant basis for accounting of income taxes and any judgements or estimates that have been made.
- **Income tax note:** Prepare the skeleton of the expected income tax note based on IAS 12 requirements. For example, how to approach the reconciliation of the tax expense (the Effective Tax Rate).
- **Materiality Check:** Understanding of internal and external materiality to be applied upon preparing for tax reporting cycle at year-end.

Uncertain tax positions and technical considerations:

Evaluate any uncertain tax positions ("UTPs") and technical issues arising from the CT Law that could impact your business's financial reporting for the year. The assessment should factor in the requirements that have been provided in IFRIC 23 and will be subject to the recognition criteria "more-likely-than-not", i.e. 50% probability that the tax authorities will not accept the tax position.

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Topics to consider for hard close procedures (c'tnd)

Management intent for transitional relief rules and elections:

Examine the transitional rules, including the tax base of assets, to ensure accurate reporting and elections to be applied for reporting purposes (including support documentation to substantiate the position taken by the management). The timely assessment of the elections (including any tax grouping) and discussing with auditors can provide clearance and alignment to factor in the implications as part of the tax provisioning process.

Loss carryforwards or disallowed interest:

Deferred tax asset recognition can be required in the situation that entities will be in a net loss position or disallowed interest will arise. In accordance with IAS 12 requirements these positions will be subject to the recognition criterion of probable, (i.e., 50% likelihood). The net loss or interest disallowance is often clear before year-end and therefore **could be discussed during the hard close** phase with the relevant supporting information (e.g., taxable profit forecasts) to substantiate the recognition criteria are met.

Outside basis differences (taxes on foreign Investments obligations):

A temporary difference might arise between the investment's carrying amount in the consolidated financial statements (the investment's net assets) and its tax base (which is often cost or indexed cost).

This temporary difference is sometimes referred to as '**outside basis**' difference. It arises in addition to the temporary differences relating to the investee's underlying assets and liabilities (inside basis differences).

The temporary difference relating to the investment might arise in a number of situations. The most common situation is where **undistributed profits** in the investee increase the carrying value of the parent's investment in the investee to above its tax cost. Therefore management should consider some of the following points:

- Will the carrying amounts for such investments or interests be recovered through distributions (use) or disposal (sale).
- Perform a detailed analysis of future tax obligations for foreign investments (subsidiaries, joint ventures, branches and associates), for example WHT's on future dividend distributions.
- Consider relevant documentation to provide to assess the above.

Key takeaways and next steps for hard close

Align with key internal and external stakeholders to agree on actions, priorities and timelines to manage expectations for the next three months in terms of roles and responsibilities. This would ideally include a test-run of the changes made to process and systems to identify any gaps that might still exist providing sufficient time for required adjustments.

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Year-end reporting considerations

After completing hard close procedures, and aligning process and controls it is time for the first effective year-end financial reporting process to start. As with many projects and deals, the tax element is often the last part of the jigsaw puzzle which means there are time constraints when preparing the tax numbers. We highly recommend factoring in sufficient time with your stakeholders - especially as this will be the first year - to allow for appropriate reviews to take place before finalizing and sharing with the auditors.

Below are important items to consider during the year-end cycle to be 'audit ready' with all relevant supporting documentation in place to provide with the auditors.

Financial audit readiness - best practices:

In the situation that the business has used the hard close time effectively, the year-end process could be seen as 'top-up-procedures' to finalize the full year income tax position that will flow into the FS. To be audit ready, we have highlighted the below topics to factor into the process for stakeholder management.

- Re-align with the auditors on expectations and required supporting documentation (tax computations, position papers and/or impact assessments).
- Plan relevant meetings with stakeholders, including kick off and closing meetings with your auditors.
- Prepare relevant income tax notes and disclosures for the FS based on final tax numbers - including judgement and estimates paragraph.
- Alignment with the business in terms of any late and audit adjustments during the final part of the audit to provide the relevant tax impacts (if any).

Key takeaways and next steps

Companies must take proactive steps now to ensure they are fully prepared for the upcoming year-end reporting and compliance requirements. Addressing these matters early will help mitigate risks and ensure smooth financial reporting and tax compliance. Our team at PwC is ready to assist you with all the aspects outlined above, from consolidation and tax provisioning to financial audit readiness.

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Thank you

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