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Economy and Tourism

IMPORTANT UPDATE: THE UAE OFFICIALLY RECEIVES TRANSITIONAL QUALIFYING STATUS FOR THE DOMESTIC MINIMUM TOP-UP TAX

The Organisation for Economic Co-operation and Development (OECD) / G20 Inclusive Framework has officially confirmed that the UAE has been added to the list of jurisdictions with a Transitional Qualified Domestic Minimum Top-up Tax (QDMTT). This marks a significant step in aligning the UAE's corporate tax framework with global standards under the Pillar Two rules of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project.

UAE ALIGNS WITH GLOBAL MINIMUM TAX STANDARDS

Cabinet Decision No. 142 of 2024, effective 1 January 2025, establishes the Pillar Two rules applicable to multinational enterprises (MNEs) operating in the UAE with annual consolidated revenues of EUR 750 million or more. The decision provides enhanced clarity and legal certainty for affected MNEs. By aligning the domestic rules with the OECD Pillar Two Inclusive Framework and its Commentary, the UAE's domestic top-up tax is recognised as a QDMTT, ensuring compliance with global minimum tax standards.

What This Means for UAE MNEs

MNEs can take comfort in the UAE's QDMTT regime being accepted globally during this transitional period

- This is a **positive development for the UAE business and investment landscape**. It reinforces the UAE's proactive approach to adopting international tax standards while ensuring that businesses in the country enjoy stability, clarity, and protection in the implementation of Pillar Two.
- For MNEs, it means smoother compliance processes and reduced risk of double taxation under Pillar Two.
- **Transitional Safe Harbour**: Effective 1 January 2025, the UAE's QDMTT regime benefits from the **"transitional safe harbour"** under the OECD Pillar Two rules. This recognition provides **greater legal certainty and alignment** for MNEs operating in the UAE. It ensures that, during the transitional period, the UAE's QDMTT is treated as **qualified for global minimum tax purposes**. As a result, other jurisdictions **must accept the top-up tax calculated and collected by the UAE** and cannot apply the Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR) on UAE-based entities covered by the QDMTT.
- **Temporary but Important Recognition**: While the transitional status is **temporary**, it **does not have a fixed end date**. It is expected to be replaced by a **permanent recognition** as qualified status following a comprehensive legislative OECD review and continued monitoring by the Inclusive Framework. The start of the UAE legislation review is expected to occur within the next two years.
- **No Retroactive Risk**: Importantly, if a different conclusion were reached following the full review, **it would not apply retroactively**, ensuring businesses are protected for the period during which the transitional safe harbour is active.
- **Reinforcing UAE's Investment Environment**: This development reinforces the UAE's investment-friendly tax framework, as it further enhances the country's position as a compliant and reliable jurisdiction under the new global tax framework.

HOW THIS AFFECTS MNES

- The UAE's Domestic Minimum Top-up Tax being recognised as a Qualified Safe Harbour is critical, as it shields UAE-based Constituent Entities and Joint Ventures from the application of the IIR or the UTPR by other jurisdictions.
- This designation also significantly reduces compliance burdens and mitigates the risk of tax disputes arising from inconsistent interpretations of the Pillar Two rules across multiple jurisdictions.

USEFUL LINKS: For further details, please refer to OECD Administrative Guidance (August 2025) **[LINK]**