Tax Alert

GUIDANCE FOR UNINCORPORATED PARTNERSHIP, FOREIGN PARTNERSHIP AND FAMILY FOUNDATION

(MINISTERIAL DECISION NO. (261) OF 2024)

UAE Ministry of Finance, introduced significant administrative and tax relief measures for unincorporated partnerships, foreign partnerships, and family foundations under the UAE Corporate Tax Law. This decision replaces Ministerial Decision No. 127 of 2023 and applies retrospectively from June 1, 2023.

BACKGROUND

Unincorporated partnership:

As per the Corporate Tax Law, unincorporated partnership would by default be treated as a pass-through entity and with partner be taxed on their share of profits or gains. However, the partners have the option to make an application to the FTA for the Unincorporated Partnership to be treated as a Taxable Person.

Foreign Partnerships:

Treated as fiscally transparent only where all the prescribed conditions are satisfied. Otherwise they are taxable on the same basis as a Non-Resident Taxable Person, if they have a Permanent Establishment or nexus established in the UAE.

Family foundations:

Treated as fiscally transparent only if specific conditions are met and an application is made to the Federal Tax Authority (FTA)

RECENT GUIDELINES

Entity	Pre-Amendment	Post-Amendment	Impact
Unincorporated Partnership	Where an Unincorporated Partnership is treated as a Taxable Person , any change in the composition of the partnership must be notified to the Federal Tax Authority **within 20 business days.**	Any change in the composition of the partnership to be provided **at the time of filing of tax return.**	Simplifies compliance and reduces administrative burden
Foreign Partnership	Conditions for tax transparency: • Foreign Partnership not to be subject to tax in foreign jurisdiction • Each partner to be individually subject to tax in foreign jurisdiction • Tax information sharing arrangement between UAE and the respective foreign jurisdiction should exist.	The condition for having tax information sharing arrangement between UAE and the respective foreign jurisdiction and need for individual partners to separately verify if they would be subject to tax is waived off.	With only one condition to be met, (the partnership must be treated as fiscally transparent in its home jurisdiction.) compliance landscape for cross-border partnerships operating in the UAE is simplified. Annual declaration to the FTA confirming their status in their home jurisdiction is required
Family Foundation	No provision for tax transparency for juridical persons wholly owned and controlled by a Family Foundation	A juridical person, that is wholly owned and controlled by a Family Foundation that is treated as an Unincorporated Partnership, can make an application to be treated as an Unincorporated Partnership and be tax transparent, thereby and assessing at the natural person beneficiaries of the parent Family Foundation to tax.	Optimal structuring can be ideated for tax efficiency and succession planning through Special Purpose Vehicles (SPVs) held by foundations.

KEY ACTIONS REQUIRED

1. **Business Restructuring Assessment:**
Review the organizational structure to identify opportunities for optimizing asset protection and electing tax transparency, particularly for entities generating income from real estate and investments.

2. **Reassess the impact for foreign partnership:**
Revisit cross-border tax strategies in light of the relaxed conditions for fiscal transparency.

3. **Tax Residency Planning:**
Leverage the tax transparency provisions to align taxation with partners/beneficiaries' personal tax regimes, minimizing cross-border tax exposure.

Engage with tax experts to navigate the new amendments effectively and align structuring strategies with updated guidelines for unincorporated partnerships, foreign partnerships, and family foundations

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