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INDIA MIDDLE EAST EUROPE ECONOMIC CORRIDOR

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UAE
A BEACON OF HOPE FOR THE FUTURE

The area that is now the UAE has a long history of human settlement dating back to the Bronze Age. In the early 20th century, Dubai was a modest coastal town known for its pearl diving and fishing industries. The discovery of oil in the 1950s transformed the UAE's economy and led to rapid modernization and development. Today, the UAE stands as a symbol of modernity, innovation, and ambition, attracting visitors and businesses from all corners of the world. The transformation of the UAE from a desert to a modern and dynamic nation with a prominent role on the global stage shows how amazing people can dream, innovate, and overcome challenges. The UAE's journey into the future is one of ambition, innovation, and a deep commitment to building a better world for all. As we look toward the horizon of the future, let us stand together with the UAE - a country that represents resilience, innovation, and progress. On this occasion by uniting in purpose and solidarity, we not only support the UAE's vision but also contribute to a future that is brighter, more sustainable, and filled with boundless possibilities for all.

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Hello From Us

VIJAYA MOHAN
Managing Partner
Evas International

Dear readers

This wonderful universe provides us with endless opportunities to seek and find our passions and excel in areas that truly resonate with us. Our life is full of possibilities waiting to be explored. Every day is a fresh start, and we can choose to embark on a journey of self-discovery and pursuit of our goals at any time. We may have missed opportunities or fallen short of our goals in the past, but it's marvelous to embrace a new life perspective. Regardless of what our life journey is until now, its quite interesting and refreshing to seek for newer life dimensions, so that our everyday life contains more zeal, enthusiasm, meaning and energy. This journey of self-discovery often involves identifying our core strengths and passions. This self-awareness can guide us towards more fulfilling and purpose-driven lives. It's our call to live our life to the fullest and find joy in our pursuits.

The United Arab Emirates (UAE) has indeed made remarkable strides in recent years, continually setting new benchmarks in various sectors, particularly in the fields of technology, business, and commerce. The UAE's visionary leadership and forward-thinking approach have played a pivotal role in establishing the nation as a global hub for opportunities and innovation. As of 2023, there are several key factors contributing to the UAE's continued success as a thriving economic powerhouse in the Middle East. The most important factors which give the UAE the cutting edge are Investment in Technology and Innovation, Diversification of the Economy, Strategic Infrastructure Development, Pro-Business Environment, Global Connectivity, Sustainable Initiatives, Quality of Life and Geopolitical Stability.

As the UAE's business landscape evolves, Evas International remains a trusted partner for businesses and play a significant role in creating value to our clients' business. Evas International's dedication to providing superior auditing services and our active involvement in various professional events and initiatives highlights our organization's commitment to professionalism and industry leadership. Evas International's present standing as one of the leading auditing firms in the UAE is the result of dedication and resilience of many years to excellence, commitment to clients, and a pursuit of the highest standards of professionalism. Collaborating with professional bodies and contributing as speakers and panelists not only demonstrates our expertise but also helps in sharing valuable knowledge within the business community. Evas International is a trusted and proactive partner for businesses seeking auditing and financial services in the UAE, making a substantial impact on the local business environment. Our dedication to excellence is a testament to our commitment to the highest standards of professional service.

Hello From Us

Evas International Plus Newsletter October 2023, comes out with a new dimension, dedicated to providing valuable insights and fostering professional development for our readers. From our Tax Department, the current edition puts forth two articles, the first one being “The application of reverse charge mechanism on electronic devices” and the second one is about the “Impact of Corporate Tax on Natural Persons”. Our Assurance Desk is highlighting in the current edition IAS 12: Income Taxes, which plays a crucial role in ensuring consistency and transparency in financial reporting of Income taxes across the globe. In addition to the above, we bring to you ISA 550 – Related Parties, from our ISA desk, narrating why is it essential for auditors to exercise due diligence in identifying, assessing, and reporting on related party relationships and transactions. Further, this edition peeks into the tidings about “COP28 in the UAE: A Global Summit Shaping Our Future” and also on the “India's Triumph in Lunar Exploration - Chandrayaan-3”.

We are certain that our readers are offered a diverse and enriching academic experience, covering a range of pertinent topics. We have made all efforts to be well-rounded, catering to a variety of interests within the academic and professional community.

Thank you for being part of our journey.
Warm regards.

Happy Reading !

India-Middle East-Europe Corridor (IMEC)

Recently, the India-Middle East-Europe Economic Corridor (IMEC) Project was signed by India, the US, Saudi Arabia, UAE, the European Union, Italy, France, and Germany at the G20 Summit in New Delhi, India. The IMEC is a proposed trade and transportation corridor that aims to create a comprehensive transportation network, comprising rail, road, and sea routes, connecting India, the Middle East, and Europe. Further it aims to enhance transportation efficiency, reduce costs, increase economic unity, generate employment, and lower Greenhouse Gas (GHG) emissions. It is expected to transform the integration of Asia, Europe, and the Middle East by facilitating trade and connectivity.

The proposed IMEC will consist of Railroad, Ship-to-Rail networks and Road transport routes extending across two corridors, that is, the East Corridor – connecting India to the Arabian Gulf, and the Northern Corridor – connecting the Gulf to Europe. The IMEC corridor will also include an electricity cable, a hydrogen pipeline, and a high-speed data cable.

Sultan Ahmed Bin Sulayem, Group Chairman and CEO of DP World told a gathering at the Arab Media Forum in Dubai that the development of IMEC will not threaten established maritime routes like the Suez Canal. Such corridors, he added, would enhance supply chain resilience. "Economic corridors [such as the IMEC] offer an alternative land-based route, reducing the risk associated with maritime transport," added the DP World Chief.

The corridor is expected to boost and contribute to the trade and economic cooperation among the participating countries. It could provide more efficient transportation routes for goods, potentially reducing costs and transit times.

The project would involve cooperation between multiple countries, requiring agreements and collaboration to create a seamless transportation network. It's important to note that the development and realization of such a corridor typically involve complex negotiations, infrastructure investments, and coordination among multiple countries. Upon completion, it would provide a "reliable and cost-effective cross-border ship-to-rail transit network to supplement existing maritime and road transports".

The Successful Journey of Chandrayaan-3:

India's Triumph in Lunar Exploration

On 14th July 2023, Chandrayaan-3, was launched from the Satish Dhawan Space Centre, Sriharikota, India, into the orbit. The launch of Chandrayaan-3 was a momentous occasion, setting the stage for a new era of lunar exploration. The spacecraft embarked on its journey to the moon, capturing the imagination of millions.

The lunar descent of Chandrayaan-3 was a nail-biting phase. The mission's success depended on a precise landing, and the ISRO team executed it with exceptional skill. On 23rd August 2023, Chandrayaan-3 was successfully soft-landed on the moon, marking a significant milestone in India's space history.

Chandrayaan-3 is the third mission in the Chandrayaan programme, a series of lunar-exploration missions developed by the Indian Space Research Organisation (ISRO). In the realm of space exploration, India has consistently demonstrated its strength and determination. The success of Chandrayaan-3 stands as a symbol of the nation's commitment to exploring the lunar frontier. The mission's primary objectives were to further investigate the moon's surface and geology, expand our understanding of lunar water, and pave the way for future lunar missions.

Chandrayaan-3 was equipped with state-of-the-art scientific instruments, including high-resolution cameras, spectrometers, and thermal imaging devices. These instruments provided valuable data about the moon's surface, mineral composition, and temperature variations. The success of Chandrayaan-3 was not only a national achievement but also a symbol of international cooperation. ISRO collaborated with space agencies from around the world, sharing data and expertise. This collaborative spirit has paved the way for future joint missions and expanded humanity's knowledge of the lunar environment. Chandrayaan-3's success has had a profound impact on India's space ambitions. It has improved the country's reputation as a global space powerhouse and a reliable partner in international space missions. The mission's success has also inspired a new generation of scientists and engineers, fuelling their passion for space exploration.

One of the most remarkable discoveries of the mission was the confirmation of water ice on the moon. This finding will greatly help the future lunar exploration, as lunar water can be used to sustain future manned missions and support life on the moon. Chandrayaan-3's triumphant journey to the moon has been a remarkable achievement for India's space program. It has expanded our knowledge of the lunar environment, fostered international collaboration, and inspired future generations. India's determination to explore the cosmos knows no bounds, and Chandrayaan-3 is a shining example of the nation's commitment to scientific excellence in space exploration.

COP28 in the UAE:

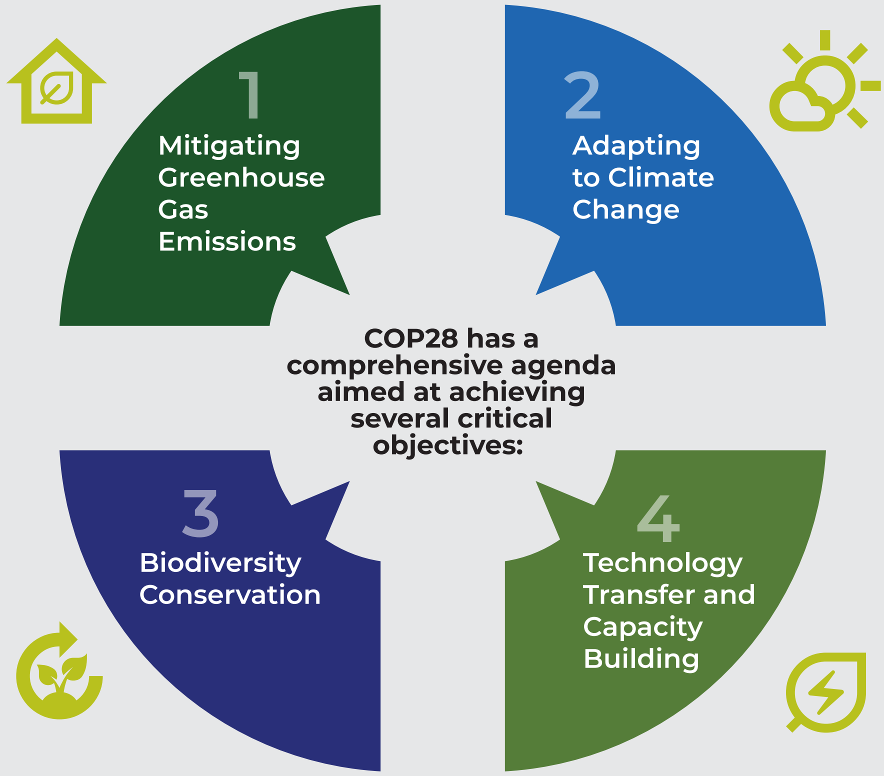
A Global Summit Shaping Our Future

The United Nations Climate Change Conference in 2023, commonly referred to as COP28 (Conference of the Parties), is a significant global event that will take place from November 30 to December 12, 2023, in Dubai, United Arab Emirates (UAE). This conference serves as a significant platform for world leaders, policymakers, scientists, and stakeholders to address critical climate issues and advance global efforts to combat climate change. It's an opportunity for nations to discuss and implement strategies and commitments to mitigate the impacts of climate change and transition to a more sustainable future.

The struggle against climate change has reached a very critical point for the entire planet. With rising temperatures, extreme weather events, and melting ice caps, the need for immediate and concerted action has never been more apparent. As the world grapples with the escalating challenges posed by climate change, the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCC), COP28 in UAE emerges as a beacon of hope.

Hosting the conference in Dubai reinforces the UAE's dedication to being a part of the global solution. The UAE has been actively engaged in sustainable initiatives, renewable energy projects, and climate action. By hosting the conference, the UAE showcases its commitment to innovation and sustainability. Overall, the selection of Dubai as the host city is not only a reflection of the global nature of climate change but also a testament to the UAE's proactive role in addressing this urgent challenge and advancing solutions on the world stage.

In a letter dated 13 January 2023, the UNFCCC Secretariat announced that Sultan Ahmed Al Jaber, Minister of Industry and Advanced Technology and UAE Special Envoy for Climate Change, has been appointed to serve as COP 28 President-Designate.



Renewable energy sources such as solar and wind power will feature prominently at COP28.The UAE's commitment to advancing renewable energy serves as a source of inspiration for nations worldwide to accelerate their transition away from fossil fuels. The conference will serve as a platform for sharing success stories, innovative solutions, and best practices in transitioning away from fossil fuels.

COP28 is not merely another international conference; it is a resounding call to action for the international community. The urgency of the climate crisis challenges nations to step up their climate commitments and implement more aggressive policies to combat climate change. At its core, COP28 is a crucible for innovation. The summit provides a platform for showcasing innovative solutions to climate challenges. It will be a global stage for showcasing cutting-edge solutions to the multifaceted challenges posed by climate change. This encompasses a wide spectrum of innovations, ranging from carbon capture technologies to sustainable agricultural practices. By disseminating these innovations, COP28 seeks to inspire a collective commitment to sustainability.

Indeed, COP28, the 2023 UN Climate Change Conference in Dubai, is expected to drive the global efforts towards a low-emission and climate-resilient world. This event serves as a crucial launching pad to foster ambitious climate action and facilitate the implementation of policies, strategies, and commitments related to climate change mitigation and adaptation. We contemplate the significance of COP28 and are reminded that the decisions made at this conference will reverberate through generations. Our collective responsibility to safeguard the planet demands that we engage actively, advocate passionately, and our leaders are remembered in the future for the actions they made out of the promises made at this critical juncture.

ISA 550 : RELATED PARTIES

INTRODUCTION

In the ever-evolving landscape of auditing standards, one area that has garnered significant attention is the auditing of related parties. Related party transactions can be a potential source of financial statement misstatement and fraud, making it essential for auditors to exercise due diligence in identifying, assessing, and reporting on related party relationships and transactions. International Standard on Auditing (ISA) 550, "Related Parties," provides a comprehensive framework to guide auditors in this critical aspect of their work.

DEFINITION - RELATED PARTY:

A party that is either:

(i) A related party as defined in the applicable financial reporting framework; or

(ii) Where the applicable financial reporting framework establishes minimal or no related party requirements:

- (a) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
- (b) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
- (c) Another entity that is under common control with the reporting entity through having:
  - Common controlling ownership or
  - Owners who are close family members; or
  - Common key management.

Examples of related party transactions and risk associated with:

Scenario	Risks associated
Transactions with Key Management Personnel (KMP): KMP includes individuals like the CEO, CFO, and other top executives who have authority and influence over the company's financial reporting process and decision-making.	**Lack of Arm's Length Pricing and undue advantage.** ▸ A publicly traded company grants its CEO a favourable stock option plan, allowing the CEO to purchase company shares at a discounted price. ▸ The CFO's brother owns a construction company, and the company regularly awards contracts to this brother's firm without competitive bidding.

Scenario	Risks associated
Transactions with Subsidiaries, Associates, or Joint Ventures: Entities in which the reporting entity has significant control or influence, such as subsidiaries, associates, and joint ventures, can impact the financial statements through intercompany transactions or investments.	▸ A parent company sells goods or services to its subsidiary at a price significantly different from market rates. ▸ A parent company pledges its own assets as collateral for a loan taken by a subsidiary. ▸ A subsidiary borrows funds from its parent company at an interest rate lower than market rates. ▸ A company enters into a joint venture with another entity, and the terms of the agreement disproportionately benefit one of the parties involved
Common Control Entities: Mr. John controls two companies named company X and Company Y. Then company X and Y are said to be related parties.	▸ Risk will be high if multiple companies under the same ownership structure engage in complex intercompany transactions, including the transfer of assets, intellectual property, or personnel without clear pricing mechanisms
Complex Ownership Structures: A holding company owns various subsidiaries that, in turn, own other subsidiaries, creating a complex web of related parties.	▸ Family members control multiple companies within a group, and transactions between these entities are not adequately disclosed. ▸ Consider a large multinational corporation (MNC) with operations in multiple countries and owns various subsidiaries, each operating in a different jurisdiction. The MNC's ownership structure and relationships with its subsidiaries can create a complex web of related parties: ▸ An entity enters into a service agreement with a related party where the terms of the agreement are not consistent with arm's length transactions.
Shareholders with Significant Ownership: Shareholders who hold a significant ownership stake in a company can have influence over financial and operating policies.	▸ A company lends a significant amount of money to a shareholder without formal documentation or clear repayment terms. ▸ A company provides guarantees on loans taken by a shareholder, potentially exposing itself to significant financial risk. ▸ An entity purchases a property from a shareholder for a price significantly above or below market value.

Following are some situations that give rise to higher risks of material misstatement of the financial statements while having related party transactions.

- Management and those charged with governance may be unaware of the existence of all related-party relationships and transactions;
- Information systems may be ineffective at identifying or summarizing transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.
- Related party transactions may be deliberately concealed by management, and their accounting treatments often carry a high risk of deliberate manipulation.
- Many entities operate through a complex range of relationships and structures, increasing the complexity of related party transactions.

RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES:

A **Understanding the entity's related party relationships and transactions:** This involves understanding the entity's related party relationships, assessing their significance, and considering the potential for fraudulent activities or biased financial reporting. Auditor should also identity changes in related party relationship from the prior period.

B **Maintaining alertness for related party information when reviewing records or documents:** During the audit, the auditor may inspect records or documents that may provide information about related party relationships and transactions. Following are some of the documents:

- Bank and legal confirmations obtained.
- Minutes of meetings of shareholders and of those charged with governance.
- Third-party confirmations obtained by the auditor (in addition to bank and legal confirmations).
- Information supplied by the entity to regulatory authorities.
- Entity Corporate Tax returns.
- Shareholder registers to identify the entity's principal shareholders.
- Statements of conflicts of interest from management and those charged with governance.
- Contracts and agreements with key management or those charged with governance.
- Reports of the internal audit function etc.

C **Identification of significant related party transactions outside the entity's normal course of business:** Following are the certain transactions outside the entity's normal course of business:

- Complex equity transactions, such as corporate restructurings or acquisitions.
- Sales transactions with unusually large discounts or returns.
- Transactions with circular arrangements, for example, sales with a commitment to repurchase.
- The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.

D **Related parties with dominant influence:** Domination of management by a single person or small group of persons without compensating controls is a fraud risk factor. Few examples are as follows:

- The related party has vetoed significant business decisions.
- There is little or no debate regarding business proposals initiated by the related party.
- Transactions involving the related party or a close family member are rarely independently reviewed and approved etc.

The auditor shall also share the relevant information like identity, nature and significance of a particular transaction etc observed about the entity's related parties with the other members of the engagement team.

RESPONSES TO THE RISKS OF MATERIAL MISSTATEMENT ASSOCIATED WITH RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

When the auditor discovers a related-party relationship or significant transaction with a related party that had not been disclosed by management, ISA 550 requires the following additional procedures to be conducted:

- Enquiry with management as to why controls failed to identify or disclose the related party
- Disclose the related party or transaction, and the performance of additional substantive procedures, such as analysis of accounting records for transactions with the newly identified related party.
- Written Representations should be obtained from the management.
- The auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties.

The main issues for the auditor to address here are whether the non-identification of the related party or transaction is deliberate, and whether there are other non-identified related parties or transactions. If it appears that management has concealed their existence, the auditor may consider whether it is necessary to re-evaluate management's responses to auditor's enquiries. Deliberate concealment may be viewed as a fraud risk indicator, and ISA 240 becomes relevant.

Conclusion:

By emphasizing transparency, mitigating fraud risks, and ensuring arm's length transactions, this international standard ensures that financial statements provide an accurate representation of an entity's financial position. By following the steps outlined in ISA 550, auditors can contribute to the credibility and reliability of financial statements, ultimately enhancing trust in financial reporting and the audit process.

APPLICATION OF REVERSE CHARGE MECHANISM ON ELECTRONIC DEVICES

In the ever-evolving landscape of taxation and fiscal policy, the application of the reverse charge mechanism for Value Added Tax (VAT) on electronic devices has emerged as a topic of profound significance in the United Arab Emirates (UAE). As a nation at the forefront of technological innovation and a thriving hub for global trade, the UAE faces the unique challenge of balancing its tax collection efforts with the rapidly changing dynamics of the electronics industry. The introduction of the reverse charge mechanism represents a pivotal step in addressing this challenge, as it fundamentally alters the tax liability dynamics between suppliers and purchasers of electronic devices.

APPLICABILITY OF CABINET DECISION NO:91 OF 2023 and VATP034

It shall apply to VAT registered suppliers and recipients dealing with Electronic Devices

EFFECTIVE DATE OF APPLICABILITY

Cabinet Decision No. 91 shall be effective from 30th October 2023.

SCOPE OF ELECTRONIC DEVICES

- **Mobile Phones, its pieces, and parts**
- **Smart Phones, its pieces, and parts**
- **Computer Devices, its pieces, and parts**
- **Tablets, its pieces and parts.**

The Ministry of Finance shall issue a decision outlining the criteria to be followed in determining the pieces and parts related to Electronic Devices.

CONDITIONS FOR APPLICABILITY

Both the supplier and recipient of electronic devices should be registered for VAT.

Intention of the recipient should be either to,

- **Resell**

or

- **Use in production or manufacturing of electronic devices.**

Before the date of supply, recipient shall provide the following written declarations to supplier:

- **Intention regarding the resale or further use.**
- **Confirmation that entity is VAT registered.**

Before the date of supply, supplier must:

- **Receive and keep the declarations from recipient.**
- **Verify the VAT registration status of the recipient.**

VAT TREATMENT

Where the conditions of applicability have been fulfilled

The supplier shall treat supply as out of scope and therefore shall neither be liable to charge VAT nor report in its VAT return.

The recipient shall pay the tax on reverse charge basis and the same can be claimed as input. The recipient shall report the transaction in Box No. 3 of VAT return.

POINTS FOR CONSIDERATION

- The supply/ movement of electronic devices from mainland to Designated Zone shall also be covered by the Cabinet Decision.
- The supplier must provide a tax invoice that includes a statement indicating that the recipient is responsible for accounting for tax, and it should provide references to the relevant provision of the Decree-Law.

NON - APPLICABILITY

The provisions of RCM will not be applicable when the supply of electronic devices is eligible for zero-rated tax treatment as part of an export of goods.

CONSEQUENCES OF NON-COMPLIANCE

Where the recipient fails to provide written declarations to the supplier:

Supplier must charge VAT @ 5% on supply of electronic devices.

RCM provisions shall not be applicable to recipient.

Recipient may not be able to claim the input tax paid to the supplier on such purchase.

CONCLUSION:

In conclusion, the application of the RCM on electronic devices is mandatory in nature. It is crucial for UAE VAT registered businesses and individuals involved in the supply and purchase of electronic devices covered within the scope of Cabinet Decision to be aware of the specific regulations and provisions related to RCM.

Additionally, understanding whether RCM provisions applies to electronic devices, and if so, under what circumstances it applies, is essential for compliance and financial planning. Seeking professional advice or consulting with tax authorities may be necessary to navigate the intricacies of RCM and ensure compliance with tax laws and regulations.

DEMYSTIFYING IAS 12: INCOME TAXES

In the complex world of accounting standards, International Accounting Standards (IAS) play a crucial role in ensuring consistency and transparency in financial reporting across the globe. One such standard, IAS 12, is often considered a formidable accounting framework. However, with a little unravelling, it becomes more approachable than it might first appear.

THE PURPOSE OF IAS 12

IAS 12, officially known as International Accounting Standard 12: Income Taxes, addresses how companies should account for income taxes in their financial statements. It provides a structured framework to report both current and deferred tax liabilities or assets, ensuring that financial statements accurately reflect a company's tax-related financial obligations.

CURRENT TAX LIABILITIES

The first aspect of IAS 12 deals with current tax liabilities. These are the taxes a company owes to the government based on its current year's income. Companies must calculate these taxes accurately and report them in their financial statements. Current tax for the current and prior periods is recognised as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due. The benefit of a tax loss which can be carried back to recover current tax of a prior period is recognised as an asset.

DEFERRED TAX LIABILITIES AND ASSETS

The second, and often more intricate, component of IAS 12 revolves around deferred tax. Deferred tax arises due to temporary differences between accounting profit and taxable profit. Let's break this down:

Temporary Differences: Differences between the carrying amount of an asset or liability in the statement of financial position and its tax bases. These occur when the way a company calculates profit for accounting purposes differs from how it's computed for tax purposes. For instance, depreciation methods could vary. A company might depreciate an asset quicker for accounting purposes, leading to lower accounting profit, while for tax purposes, it might follow a slower depreciation method, resulting in higher taxable profit. These differences are straightened over a period of time.

Tax Base: The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Taxable temporary differences: Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Deductible temporary differences: Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Deferred Tax Liabilities: These represent future tax payments a company will need to make because of temporary differences. Going back to our depreciation example, the company will eventually need to pay more taxes because it has reduced its taxable profit less in the past by using a slower depreciation method.

Deferred Tax Assets: Conversely, deferred tax assets represent future tax benefits a company will enjoy due to temporary differences. In our example, if the company's accounting profit was temporarily lower due to quicker depreciation. Conversely it will pay less in taxes in the future when the asset's value is higher, creating a deferred tax asset.

Calculation of deferred tax: Deferred tax assets and deferred tax liabilities can be calculated using the following formulae:

Temporary difference	=	Carrying amount	-	Tax base
Deferred tax asset or liability	=	Temporary difference	*	Tax rate

The following formula can be used in the calculation of deferred taxes arising from unused tax losses or unused tax credits.

Deferred tax asset	=	Unused tax losses or credits	*	Tax rate

Tax Bases:
The tax base of an item is crucial in determining the amount of any temporary difference, and effectively represents the amount at which the asset or liability would be recorded in a tax-based balance sheet. IAS 12 provides the following guidance on determining tax bases:

Assets: The tax base of an asset is the amount that will be deductible against taxable economic benefits from recovering the carrying amount of the asset. Where recovery of an asset will have no tax consequences, the tax base is equal to the carrying amount. Ex: Property, plant, and equipment

Revenue received in advance: The tax base of the recognised liability is its carrying amount, less revenue that will not be taxable in future periods.

Other liabilities: The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods.

Unrecognised items: If items have a tax base but are not recognised in the statement of financial position, the carrying amount is nil.

RECOGNITION AND MEASUREMENT OF DEFERRED TAXES

Recognition of deferred tax liabilities: The general principle in IAS 12 is that a deferred tax liability is recognised for all taxable temporary differences. There are three exceptions to the requirement to recognise a deferred tax liability, as follows:

- liabilities arising from initial recognition of goodwill
- liabilities arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
- liabilities arising from temporary differences associated with investments in subsidiaries, branches, and associates, and interests in joint arrangements, but only to the extent that the entity is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future.

Recognition of deferred tax assets: A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, unless the deferred tax asset arises from:

- the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect accounting profit or taxable profit.

The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Measurement of deferred tax: Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. The measurement reflects the entity's expectations, at the end of the reporting period, as to the manner in which the carrying amount of its assets and liabilities will be recovered or settled.

Recognition of tax amounts for the period: The following formula summarises the amount of tax to be recognised in an accounting period.

Tax to recognise for the period	=	Current tax	+	Movements in deferred tax balances

PRESENTATION

Current tax assets and current tax liabilities can only be offset in the statement of financial position if the entity has the legal right and the intention to settle on a net basis.

Deferred tax assets and deferred tax liabilities can only be offset in the statement of financial position if the entity has the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realise the asset and settle the liability at the same time.

The amount of tax expense (or income) related to profit or loss is required to be presented in the statement(s) of profit or loss and other comprehensive income.

DISCLOSURE

IAS 12 requires the following disclosures:

- current tax expense (income)
- any adjustments of taxes of prior periods
- amount of deferred tax expense (income) relating to the origination and reversal of temporary differences
- amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes
- amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period
- write down, or reversal of a previous write down, of a deferred tax asset amount of tax expense (income) relating to changes in accounting policies and corrections of errors

ILLUSTRATION

Illustration on Temporary differences:

The UAE CT Law provides that deduction of net interest expense (NIE) exceeding the threshold of AED 12 million shall be 30% of Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) or threshold whichever is higher. The remaining amount can be carried forward to next year for deduction against future taxable income.

Say, ABC LLC has net interest expense of AED 15 million during the year and EBITDA is AED 30 million. Here in this case the maximum NIE shall be higher of AED 12 million or 30% of EBITDA, i.e., 30% of AED 30 million equals to AED 9 million. So, the NIE for the current period in computation of taxable income shall be AED 12 million. However, in computation of accounting profit total NIE of AED 15 million have been considered. This situation arises a temporary difference of AED 3 million. Assume Depreciation of AED 2 million.

Accounting income:		Taxable income:	
Particulars	AED (in Mn's)	Particulars	AED (in Mn's)
EBITDA	30	EBITDA	30
Less: Depreciation	(2)	Less: Depreciation	(2)
Less: Interest expense	(15)	Less: Interest expense	(12)
Profit	13	Profit	16
Tax @9%	1.17	Tax @9%	1.44

ABC LLC shall pay an amount of AED 1.44 million as current tax to tax authorities, however as per accounting profit, the tax amount shall be AED 1.17 million. So, the entity shall recognise Deferred tax asset of AED 0.27 million and accounting treatment shall be as follows.

Dr	Profit and Loss a/c	1.44
Cr	Provision for Corporate tax a/c (Current tax)	1.44
Dr	Deferred tax asset a/c	0.27
Cr	Profit and loss a/c	0.27

The deferred tax asset created shall be reversed in future periods when the interest amount of AED 3 million is allowed as deduction against future taxable income.

Illustration Permanent differences:

Expenses like fines, penalties, bribes, expenditure not incurred wholly and exclusively for the purpose of taxable person's business are not allowed as deduction under computation of taxable profit whereas in computation of accounting profit, the above expenses maybe adjusted. This situation arises in permanent differences. No need to account any for deferred tax or liability.

Conclusion

While IAS 12 might appear daunting, it serves a vital role in financial reporting. By breaking it down into current and deferred tax components, we can see that it ensures companies accurately represent their tax obligations in their financial statements. This transparency benefits all stakeholders and promotes global consistency in accounting practices. Understanding IAS 12 is essential for both financial professionals and those interested in a company's financial health, as it provides valuable insights into a company's future financial obligations and potential benefits.

IMPACT OF CORPORATE TAX ON NATURAL PERSONS

As the term denotes, the "Corporate Tax" is essentially aimed to tax the profit of the Corporates or Companies which are incorporated in the UAE. An immediate second question shall arise about the taxability of profit or income earned by the natural persons or by the people who conduct the business in their own name. There shall be various situations in the Corporate Tax environment with respect to the taxability of the income earned by the natural persons. In this article we try to elaborate on the various provisions under the Corporate Tax which are related to the natural persons and their taxability.

A natural person carries out business in his own name which is generally called as sole establishment or sole proprietorship. In such a case, when the business is owned by a natural person, the owner or the sole proprietor is not separate from the business conducted. This is because of the direct relationship and control of the natural person over the business and their unlimited liability against the debts and other obligations existing in their business. Therefore, a natural person becomes taxable person when he conducts business or business activity in the State. His income will be taxable to the extent it is derived from the State or from outside the State in so far as it relates to the Business or Business Activity conducted by the natural person in the State subject to the other conditions and exemptions.

Nevertheless, the following areas are to be read in detail to understand the concepts under the Corporate Tax and which are related to the natural persons.

RESIDENTIAL STATUS OF NATURAL PERSONS

Non determining factors

Residential status of Natural Persons for Corporate Tax purposes is not determined by:

where he/ she resides or is domiciled	holding a residency visa in the UAE,
nationality	whether their income is sourced in the UAE or from abroad
physical presence	time they may physically spend in the UAE.

Determining factors

For the purposes of Corporate Tax in UAE, a natural person (whether local/foreign) who conducts a Business or Business Activity in the State is treated as a resident person.

A natural person is considered as a Non-Resident Person for UAE Corporate Tax purposes if he /she is not engaged in a taxable Business or Business Activity in the UAE. It is also important to note that being treated as a Resident Person for UAE Corporate Tax purposes does not automatically mean that the foreign natural persons will be considered resident in the UAE for all other taxes or for the application of a double tax agreement.

TAXABLE INCOME OF A NATURAL PERSON

The Taxable Income of a natural person is the income derived from the State or from outside the State insofar as it relates to the Business or Business Activity conducted by the natural person in the State either by himself or through a permanent establishment or through state sourced income and the aggregate Turnover derived from all such Businesses or Business Activities exceeds AED 1,000,000 within a Gregorian calendar year.

RELIEF FROM CORPORATE TAX FOR CERTAIN CATEGORIES OF INCOME FOR NATURAL PERSONS

In case of resident or non-resident natural persons, the income/ turnover arising from the following sources are **not subject** to Corporate Tax, regardless of the amount of the income/ turnover derived from such activities. These activities that give rise to income/ turnover from these mentioned sources shall not be considered as Businesses or Business Activities conducted by a resident or non-resident natural person.

- A Wages, salary, or any other amounts received by a natural person from their employer by virtue of their employment contract, whether in cash or in kind.
- B Personal Investment income that is neither conducted through a Licence or requiring a Licence from a Licensing Authority in the State, nor considered as a commercial business in accordance with the Federal Decree-Law No. 50 of 2022.
- C Real Estate Investment income conducted by a natural person related to, directly or indirectly, the sale, leasing, sub-leasing, and renting of land or real estate property in the State that is not conducted or does not require to be conducted through a Licence from a Licensing Authority.

SPECIAL FACTORS TO BE CONSIDERED BY NON-RESIDENT NATURAL PERSON CONDUCTING BUSINESS/BUSINESS ACTIVITY IN UAE (non-resident as per general rules of determining tax residency)

International agreements such as agreements for the avoidance of double taxation may specify rules for determining the tax residence of a natural person, which may differ from those set out in the Law. Such rules and any restrictions need to be considered where a Person that is subject to Corporate Tax as a Resident Person for Corporate Tax purposes is (also) a resident for tax purposes in another jurisdiction. A Non-Resident natural Person who is subject to tax under the provisions of the Corporate Tax Law may be entitled to seek relief under a relevant Double Taxation Avoidance Agreement (DTAA).

When a DTAA is not in place between the UAE and the country where the natural person is a tax resident, and that individual conducts business in the UAE, they will be considered a resident for corporate tax purposes in the UAE. If the individual's annual turnover from such business/ business activity exceeds AED 1,000,000 in a Gregorian calendar year, they will be obligated to register for Corporate Tax, submit a corporate tax return, and settle any applicable taxes.

When a DTAA is in place between the UAE and the natural person's tax resident country, and the individual conducts business in the UAE with an annual turnover exceeding AED 1,000,000, the individual will be considered a resident for tax purposes in the UAE, in accordance with the Corporate Tax Law. However, it's important to note that the DTAA takes precedence over the corporate tax Law, and if the individual is not considered a tax resident in the UAE under the terms of the DTAA, they are not obligated to register for corporate tax.

BENEFITS AVAILABLE TO A NATURAL PERSON

1. A natural person intending to convert their sole proprietorship into a company or incorporate any other taxable Business Activity that is undertaken in their personal name can benefit from Business Restructuring Relief when transferring their Business to a company provided all the relevant conditions are met.
2. The concept of nexus is not applicable to a Non-Resident Natural Person.
3. General Interest Deduction limitation rule shall not apply to a natural person undertaking a Business or Business Activity in the State.
4. Interest and other Personal Investment and savings income earned by a natural person in their personal capacity will not be subject to UAE Corporate Tax.
5. Income of a natural person from foreign businesses that are not related/connected to UAE business or income earned from activities/assets that are not related/connected to UAE business/business activity shall not be taxable in UAE.

6 The natural person that is not conducting a Business or Business Activities subject to Corporate Tax shall not be required to register for Corporate Tax.

7 The natural person that is subject to Corporate Tax may elect for the application the Small Business Relief, provided they meet the relevant conditions.

8 A natural person who conducts multiple taxable Businesses will be considered as one single Taxable Person for UAE Corporate Tax purposes irrespective of how many taxable Businesses or Business Activities he/she undertakes. This means that each natural person should register for Corporate Tax once and prepare a single Corporate Tax Return, which includes the income and expenses from all of their taxable businesses.

DISADVANTAGES/ ADDITIONAL COMPLIANCES APPLICABLE TO NATURAL PERSON

1 The Tax Period of a Taxable natural Person is always the Gregorian calendar year. Accordingly, a natural person following any other financial year for the purpose of maintaining books of account may have to maintain separate records for tax purposes.

2 The transfer pricing rules apply to both cross-border and domestic transactions carried out by individuals.

3 Amounts withdrawn from the Business by a Taxable natural person shall be a non-deductible expenditure.

4 Natural persons cannot benefit from the Free Zone Corporate Tax regime.

SPECIAL POINT ON REMUNERATION TO THE OWNER OF THE TAXABLE PERSON

When a natural person, who is the proprietor of a sole establishment, receives remuneration for services provided to the sole establishment, and there is a substantiated and valid reason to believe that the owner has the expertise to deliver these services, and that without the owner's provision, third-party services would have been required (such as employing an employee or hiring a consultant), the remuneration paid to the owner will qualify as an allowable expense. Nevertheless, as the owner of a taxable entity is categorized as a connected person, deduction under corporate tax shall be limited to the extent that the payment is made at arm's length price.

However, in cases where such justification is lacking, the payment may be regarded as owner withdrawals and will not be eligible for tax deduction. It is important to note that additional guidance from the FTA is awaited on this matter.

CONCLUSION

In summary, the assessment of the tax liability of natural persons involves various criteria and judgments. To succinctly assess the impact of corporate tax on natural person, a comprehensive examination of their business activities, the relevance of DTAA for non-resident natural persons, limitations or non-deductibility of remuneration drawn by natural persons, synchronization of tax periods with financial statements, and transfer pricing evaluations may be essential. A simultaneous application of various provisions under the Corporate Tax is highly warranted while computing the tax liability of any natural persons. Seeking professional guidance or engaging with tax authorities may become imperative to navigate the taxation of natural persons effectively and ensure compliance with the pertinent tax laws and regulations.

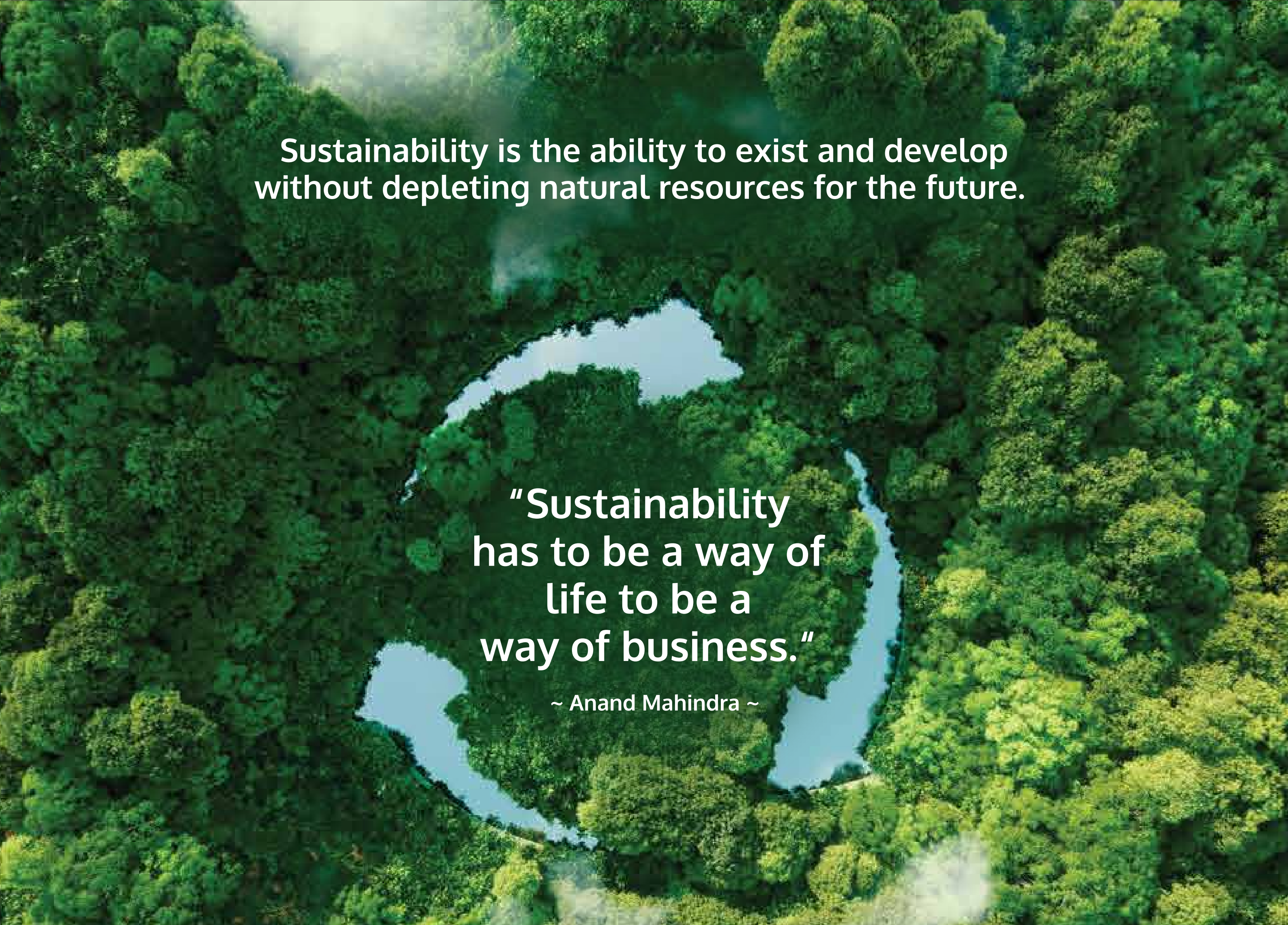
EVENTS

Evas Onam 2023

EVENTS

Khaleej Times, a leading newspaper in UAE organized a one-day event partnering with The Institute of Chartered Accountants of India (ICAI), Abu Dhabi Chapter under 'NEW AGE FINANCE AND ACCOUNTING SUMMIT' with the objective of making Corporate Tax awareness to its participants. The event was titled as "Corporate Tax UAE, Decoded", held at Dusit Thani Abu Dhabi on 26th August, to understand the impact on business profits and ensure compliance with Corporate Tax requirements.

Evas international is very excited to take part in The Industrialist Career Fair organized by Ministry of Industry and Advanced Technology (MoIAT) at the Abu Dhabi Energy Centre.



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