



Tax Newsletter October 2025

Introduction

Welcome to the October 2025 edition of the MNV Associates Tax Newsletter.

In this issue, we present a focused overview of the latest developments in UAE taxation, spanning both Corporate Tax and VAT. From new FTA clarifications to regulatory updates and compliance enhancements, this edition aims to provide businesses with clear, practical insight into the most important changes shaping the current tax landscape.

Corporate Tax

Additional updates on Valuation Method for Real Estate Developers under Corporate Tax (CT) Transitional Rules as per the FTA Public Clarification CTP009

Determining the Market Value under the valuation method.

The Federal Tax Authority has issued further clarity on how Real Estate Developers should determine Market Value when applying the valuation method under the Corporate Tax transitional rules. These rules are particularly relevant when calculating the excluded gain for Qualifying Immovable Property (QIP) held at the start of the first Tax Period.

The Market Value may be determined by outsourced third parties authorised by the government competent authority (accredited valuers specified by the relevant government competent authority). A Market Value determined by persons that are not authorised by the relevant government competent authority will not be accepted for the purpose of computing the adjustment under the transitional rules. For the purpose of the calculation of the excluded gain under the transitional rules, the Market Value must be determined and obtained in relation to QIP only.

If the Market Value, at the time of computing the adjustment, does not only relate to QIP it would not be considered acceptable for the purposes of the adjustment under the transitional rules, unless reasonable adjustments are made as follows:

- A portion of the real estate development project may have already been disposed of or deemed to have been disposed of prior to the start of the first Tax Period and no adjustment would be available under the transitional

rules for this portion of the project. Accordingly, the Market Value should be adjusted to exclude the amount attributable to the portion that has been (or is deemed to have been) disposed of prior to the first Tax Period. The attribution must be made on a fair and reasonable basis.

- The real estate development project may include Immovable Property that will not be disposed of to customers, for example, communal areas that are not reflected in the value of the QIP being sold to the customers and are to be retained by the developer. The Market Value should, therefore, be adjusted for such Immovable Property, on a fair and reasonable basis.
- The Market Value in respect of a real estate project under construction at the start of the first Tax Period may not reflect its partially completed state, instead it reflects its completed state. The Market Value should, therefore, be adjusted, on a fair and reasonable basis, to reflect the partially completed state of the real estate project.



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Corporate Tax

Basis of election under Article 2(5) of Ministerial Decision No. 120 of 2023 for application to 'each' QIP

As part of the Corporate Tax transitional rules, the Federal Tax Authority has clarified how Real Estate Developers should apply the valuation-based election available under Article 2(5) of Ministerial Decision No. 120 of 2023. This provision allows a Taxable Person to elect to use the valuation method rather than relying on historical cost to compute the adjustment for gains relating to QIP held at the start of the first Tax Period.

The election made in accordance with Article 2(5) of Ministerial Decision No. 120 of 2023 is in respect of each QIP. Therefore, the Market Value, original cost, and net book value should be determined in respect of each QIP. QIP can be either the entire real estate development project or specific unit(s) within the project. The adjustment under the transitional rules will follow the basis of realisation of accounting profits in relation to each QIP, as the case may be.

The accounting profits recognised may be reflective of several projects at different stages of development. For example, if a Taxable Person undertakes Project A and Project B, and each has a Market Value based on the stage of completion at the start of the first Tax Period, then Project A and Project B could each be considered separate QIP for the purposes of the adjustment under the transitional rules, subject to the relevant conditions being met. The adjustment must be calculated for each QIP (being either the entire project or each specific unit(s)) and the timing of the adjustment should follow the recognition of accounting profits in relation to each QIP.

Indirect Tax

VATGIT1 - Updated Input Tax Apportionment Guide.

The Federal Tax Authority has issued an updated **Input Tax Apportionment Guide (VATGIT1)** on **30th September 2025**, introducing clearer rules and practical direction for businesses that make both taxable and exempt supplies. The revised guidance is particularly relevant for sectors such as financial services, real estate, educational institutions, insurance companies and other mixed-activity businesses that depend on accurate apportionment to determine their VAT recovery. The update aims to bring greater consistency and transparency across the VAT system by enhancing explanations, clarifying existing requirements, and strengthening the approval process for apportionment methods. Overall, the intention is clear: cleaner methodologies, stronger documentation, and reduced ambiguity for taxpayers.

Specified Recovery Percentage (SRP)

The SRP is a mechanism that permits eligible taxpayers to apply a fixed input tax recovery rate for the entire tax year, rather than recalculating the ratio for every VAT period. The percentage is determined using the previous year's actual recovery rate, offering a more efficient approach for businesses with consistent operations. When supported by reliable historical data and robust documentation, the SRP can substantially reduce compliance effort while ensuring alignment with the FTA's apportionment rules.

To apply for the SRP, a taxpayer must have been VAT-registered for at least 12 months and must carry out both taxable and exempt supplies. The application must be submitted through EmaraTax with full supporting details and FTA may take up to 40 - 60 business days to respond.

Requirements:

- The prior year's full annual wash-up.
- Actual use adjustment calculations (if relevant).
- Detailed reconciliations tied to submitted VAT returns.

Once approved, the **SRP is valid for four years**, and businesses **must retain the method for at least two years** before requesting a change.

Blocked Input Tax

The updated guide provides clearer direction on the treatment of blocked input tax. The FTA reiterates that any input tax explicitly disallowed under **Article 53 of the amended Executive Regulations** must be completely excluded from the apportionment calculation. At the same time, both recoverable and non-recoverable input tax, except for amounts falling under the blocked category should be included when determining the overall input recovery ratio. This clarification brings much-needed precision to the apportionment process, particularly following the amendments introduced in October 2024, and ensures businesses apply a consistent and accurate methodology.

Indirect Tax

Special Input Tax Apportionment Methods

For large or diversified businesses and Tax Groups with multiple independent divisions, the standard or special apportionment methods may not accurately reflect how input tax relates to each activity. For example, banks, insurers, and mixed-activity groups may operate separate divisions such as retail banking, investment services, or real estate. In such cases, the FTA allows taxpayers to apply for a sectoral apportionment method, enabling each division to calculate its input tax recovery separately based on its own activities and expenses. This approach ensures a more accurate and fair allocation of input tax across distinct business segments.

The FTA also reinforces the approval process for this and the validity period for these methods is now clearly restated:

- **Non-sectoral methods:** valid for **4 years**
- **Sectoral methods:** valid for **2 years**

Applications must include a business overview, clear justification of the apportionment method, and parallel calculations using both the standard method and the proposed special method for at least twelve months.

A key compliance feature of the updated guide is the requirement to notify the FTA when there is a variance greater than 10% between the actual annual recovery rate and the one submitted in the application. This notification must be made within 20 business days of identifying the variance and must be supported with the annual wash-up, explanation of business changes, and related calculations. Failure to notify may invalidate the approved method from the date the variance occurred

What This Means for Businesses

The updated guide raises the bar on documentation and consistency. Businesses using apportionment should revisit their historical workings and ensure they are aligned with the level of detail expected by the FTA.

Some areas that need immediate focus include:

- Reviewing the last 12 months of apportionment calculations
- Checking whether the business qualifies for the SRP and assessing its potential impact
- Ensuring systems are capable of performing accurate annual wash-ups
- Updating internal VAT governance processes
- Monitoring operational changes that may trigger a variance notification

These updates are not merely technical adjustments, they reshape how businesses manage VAT recovery and highlight the importance of proactive compliance.

The revisions to the Input Tax Apportionment Guide reinforce the FTA's commitment to building a more consistent, well-governed VAT environment in the UAE. With clearer rules and stronger procedural expectations, now is the right time for businesses to revisit their apportionment approach, strengthen documentation, and prepare for upcoming reporting cycles.

Indirect Tax

VAT Group Eligibility & Turnover Declaration – New Requirements

The FTA has introduced a revised template for VAT Group Eligibility and Turnover Declaration. VAT Group members must now confirm compliance with Articles 9 and 10 of the Executive Regulations and ensure that no member is a sole establishment, branch, or foreign entity. The declaration also requires a detailed 12-month turnover breakdown for each member, covering standard-rated, zero-rated, inter-group, and out-of-scope supplies.

All submissions must be supported by evidence, including signed and stamped monthly sales summaries and relevant financial documents such as invoices and contracts, to validate the reported turnover. VAT Groups should begin gathering this information early to avoid processing delays and ensure full compliance with the new FTA requirements.

“My Audit” Section on EmaraTax

The Federal Tax Authority has launched a new **“My Audit”** feature on the EmaraTax portal, giving businesses clearer visibility and control during tax audits.

Practical Takeaways:

- Monitor any ongoing audits directly through the EmaraTax portal.
- Keep track of audit progress and FTA requests in real time.
- Upload and manage all submissions seamlessly within the portal.

To stay audit-ready, businesses should regularly review their records and ensure their tax positions are clear and well-maintained. Exploring the new “My Audit” tab on EmaraTax will help you stay aligned with the FTA’s enhanced digital audit process and keep track of any ongoing reviews with ease.



Our Experts

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