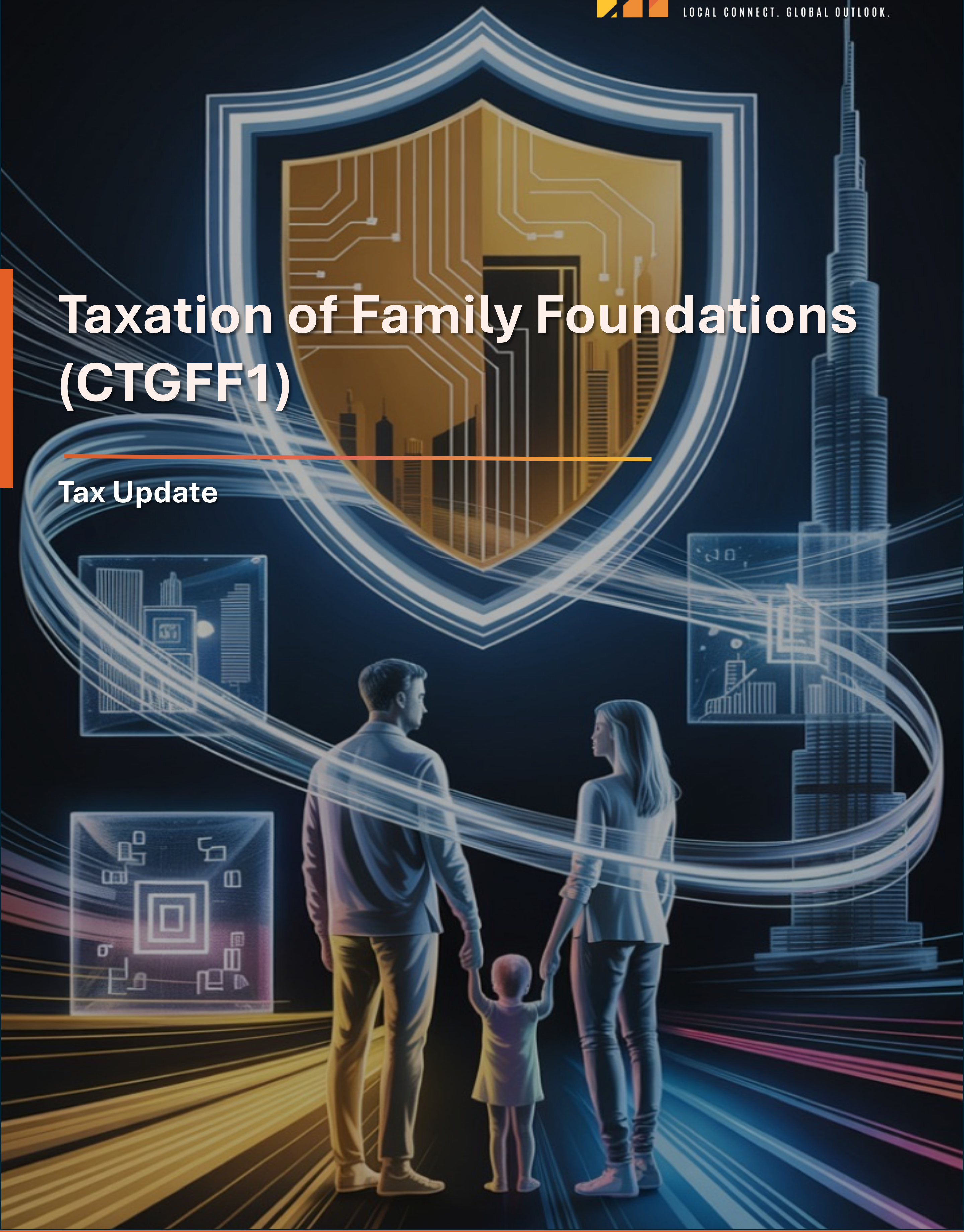
JUNE 2025

Taxation of Family Foundations (CTGFF1)

Tax Update



Introduction:

- The Federal Tax Authority (**FTA**) recently issued a guide on Family Foundations, detailing eligibility conditions for such treatment, the treatment of multi-tier structures, the corporate tax implications when such foundations are treated as unincorporated partnerships, and the related compliance requirements.

- The Guide is principally based on the Ministerial Decision (“**MD**”) No. **261** of 2024 and aims to provide tax transparency, reduce compliance burdens, and align the tax treatment of Family Foundations with their legal and economic structure.

Key takeaways from the guide:

- Two core criteria for an entity or setup to be considered as Family Foundation: a) Structure – Must be a foundation, a trust or a similar entity which relies on relevant non-tax legislation. b) Conditions of **Article 17(1)** of the Corporate Tax (**CT**) Law.

Family Foundation CT Position

Has a **separate legal personality**

- *Subject to corporate tax in its own right*
- *However, an application can be made to FTA to be treated as unincorporated partnership*

Does **not have a separate legal personality**

- *By default, treated as an unincorporated partnership and fiscally transparent without any application to FTA.*

- Foreign entity, Foundations formed outside UAE that operate in Free Zones can also be recognized as Family Foundation.
- Trust structures without separate legal personality are classified as unincorporated trusts and, by default, treated as Unincorporated Partnerships—making them fiscally transparent for CT purposes. However, where a Waqf is a Qualifying Public Benefit Entity, it would be exempt from CT.
- Compliance requirements or relevant applications available for Unincorporated Partnerships under Article 16 of the CT on a standalone basis will not apply.
- **Entities wholly owned and controlled by family foundation:**

Family Foundation → *Entities*

Conducts Commercial Activity — *Not eligible to be treated as unincorporated partnership*

No Commercial Activity — *Can make an application to FTA to be treated as unincorporated partnership*

- Where the beneficiary is a Qualifying Public Benefit Entity, the beneficiary, as an Exempt Person, is not subject to CT on any income from the Family Foundation.
- There is no minimum or maximum number of beneficiaries for a Family Foundation prescribed by the Corporate Tax Law.

What is a Family Foundation?

1. Any Foundation, Trusts (Unincorporated or Incorporated) or similar entity
2. Meets the conditions of Article 17(1) of the corporate tax law

Note: *There is no requirement for a Family Foundation to be established in the UAE; foreign entities can also qualify, provided they meet the prescribed conditions*

"A Family Foundation is a concept for CT purposes and is best understood as an entity that families may use for managing and preserving wealth across generations."

Conditions to be a family foundation under Article 17(1):

1	2	3	4	5
Beneficiary Condition	**Principal Activity Condition**	**No Business Activity Condition**	**No Tax Avoidance Condition**	**Distribution condition**
Established for the benefit of identified or identifiable natural persons, **and/or** a public benefit entity*	Limited to receive, hold, invest, disburse, or otherwise manage assets or funds associated with savings or investment	Does not conduct any activity that would have constituted a Business or Business Activity **	The principal purpose is not to avoid the Corporate tax	meets one of the **"distribution conditions"** where any of the beneficiaries are public benefit entities *(Please see next page)*

** There are no requirements or restrictions regarding the relationship of the beneficiaries, for instance, the natural person beneficiaries are not required to be from the same family.*

***Turnover derived from Wages, Personal Investment income and Real Estate Investment income is not considered to be derived from a Business or Business Activity.*

Distribution condition where beneficiaries include public benefit entities:

When beneficiaries of foundation, trust or similar entity are public benefit entities

(It should satisfy any of the following additional conditions)

- The beneficiaries must not derive any income that would be classified as taxable income had it been earned by them directly
- Where income is regarded as taxable, it should be distributed to the relevant beneficiaries within six months from the end of the relevant Tax Period

The above condition is deemed to be satisfied if:

a) The beneficiary's income, as a public benefit entity, is exempt income; or

b) The entity qualifies as a Qualifying Public Benefit Entity.

Multi-tier structures:

A juridical person may apply to the FTA to be treated as an Unincorporated Partnership, provided

- It is wholly owned and controlled by a Family Foundation, either directly or through a fiscally transparent chain
- It meets all conditions as given in Article 17(1) *(and MD No. 261 of 2024, where applicable)*.

- The eligibility of juridical persons in a multi-tier structure to be treated as Unincorporated Partnerships must be determined for each entity separately.
- Both conditions must be continuously **met throughout** the relevant tax period; otherwise, the juridical person will cease to be treated as an unincorporated partnership from the start of that tax period.
- There is no requirement for juridical persons within the uninterrupted chain to have the same Financial Year. If the basic conditions are not satisfied, it will be treated as interruption in the chain

CT implications:

Entity / Beneficiary	Implications	Conditions / Notes
Family Foundation (not approved as Unincorporated partnership)*	Taxable in own right	- If Article 17(1) not met, - No application, or - No FTA approval
Family Foundation (approved as Unincorporated Partnership)*	Not taxable (fiscally transparent)	Tax attributes pass to beneficiaries
Natural Person Beneficiary	Not taxable	Income treated as personal / Real Estate Investment
Qualifying Public Benefit Entity	Exempt	Must maintain qualifying status
Non-qualifying Public Benefit Entity	Taxable	Must include share of income in Taxable Income
Foreign Public Benefit Entity	May be taxable in UAE	If Foundation has UAE nexus
Incomes in the nature of Dividends / Capital Gains for	Exempt	If from UAE company or foreign Participating Interest (conditions met at beneficiary level)

**The assets, liabilities, income and expenditure of the Family Foundation will be allocated to each beneficiary (where any of them are subject to CT) in proportion to their distributive share where any of the beneficiaries.*

CT treatment:

Deductible Expenditure

- Beneficiaries must account for their share of the foundation expenses
- Reimbursement expenses - No need of CT adjustment ideally .

Service payments to beneficiaries

- Payments to beneficiaries for services (outside their beneficiary / employee role) are deductible if at arm's length.
- Income taxed at the beneficiary level

Foreign Tax Credit

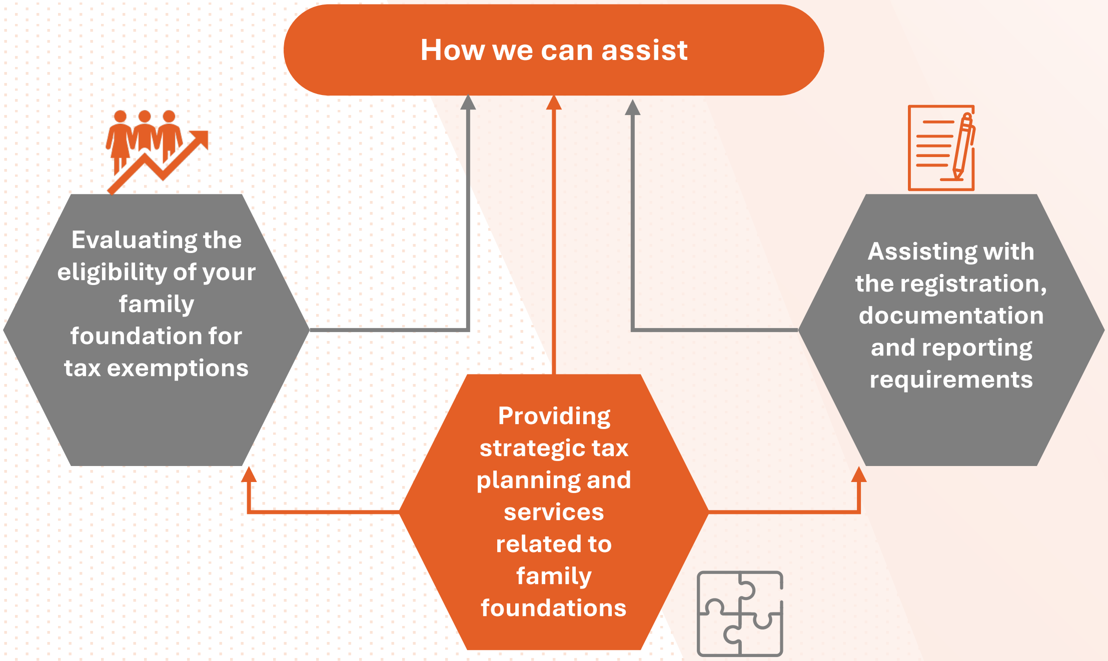
- Beneficiaries can claim a Foreign tax credit in proportion to their distributive share of income subject to foreign tax.

Distribution to public benefit entities

- Foundation must distribute non-exempt income to Public Benefit Entity beneficiaries within 6 months or where the Public Benefit entity is not Qualifying. Such distributions are ignored for CT, if income already included in beneficiary's Taxable Income

Tax Compliances:

Particulars	Summary
Registration	▪ Family Foundations and entities they own/control must register for Corporate Tax before applying for fiscally transparent status. ▪ Natural person beneficiaries should only register if they run a separate UAE business with turnover > AED 1 million. ▪ Public benefit entity beneficiaries must register if they are Taxable Persons.
Application for Transparency	▪ Apply to be treated as an Unincorporated Partnership if conditions in Article 17 are met. ▪ Application must be submitted before the end of the Tax Period; can be retroactive for periods ending before 31 Dec 2025. ▪ Foreign foundations/trusts may also apply if UAE nexus exists ▪ All entities in multi-tier structures must be registered and apply separately or via top-tier entity.
Annual Confirmation	▪ Family Foundations and their controlled entities must file confirmation annually (within 9 months of Tax Period end). In a multi-tier scenario, the annual confirmation can be submitted by the Family Foundation itself or alternatively by each entity. ▪ For periods ending on/before 31 March 2025, deadline for filing Annual Confirmation is 31 Dec 2025.
Failure to meet conditions	▪ Losing compliance with Article 17(1) conditions removes fiscally transparent status. ▪ Entire multi-tier structure may lose transparency if one entity fails compliance.



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