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LOCAL CONNECT. GLOBAL OUTLOOK.

Achieving DMTT readiness in Dubai?

What DMTT means in the UAE context?

The UAE implemented the DMTT from 1st January 2025 for in-scope MNEs. Since it aligns with the OECD GloBE rules, the UAE's DMTT is recognized internationally, meaning other jurisdictions generally cannot impose their own top-up tax on the same profits. In effect, MNEs in the UAE meet global minimum tax requirements while keeping any top-up tax liability within the UAE, avoiding foreign top-up tax exposure.

Key Implications & Strategic Considerations for Dubai Businesses

Structural & Compliance Impact on MNEs

- DMTT applies to all MNE structures , qualifying MNE groups (€750M threshold) including subsidiaries, JVs, "stateless" entities, and free-zone entities
- Free-zone entities are not automatically excluded unless they meet specific exemptions.
- Accurate accounting, substance documentation, and TP compliance are essential for ETR and top-up tax calculations.
- Group entities (including minority-owned) may face joint and several liability. Hence, Minority investors/partners should assess their exposure carefully

Strategic takeaway: MNEs must treat UAE operations as part of the global tax structure; conduct early structural reviews and implement liability-sharing frameworks.

Leverage "Substance" Through SBIE (Substance-Based Income Exclusion)

- SBIE allows exclusion of income tied to UAE payroll and tangible assets.
- Real operations (people, assets, offices) can significantly reduce or eliminate top-up tax.

Strategic takeaway: Strengthening genuine UAE substance mitigates top-up tax exposure and aligns with the UAE's push for real economic activity

Reduced Global Double Taxation Risk

- As a recognised DMTT, UAE top-up tax generally shields profits from foreign IIR/UTPR claims.
- Provides predictability and simplifies global tax modelling.

Strategic takeaway: UAE remains an attractive hub due to reduced cross-border tax risk and compliance simplicity

Need for Strategic Restructuring & Operational Alignment

- Location of real business functions, as shell entities may lose tax advantages.
- Consolidating activities to fewer jurisdictions to enhance substance and reduce compliance.
- Allocation of intercompany costs, transfer pricing, and financial flows to reflect actual economic activity

Strategic takeaway: The regime incentivizes real operations over shell structures, shaping how companies plan their UAE presence.

Heightened Compliance & Administrative Burden

- Mandatory registration, top-up tax filings, and extensive documentation (maintained for up to 7 years).
- Complex calculations and group coordination may increase internal costs or require external advisors.

Strategic takeaway: Businesses should plan for higher compliance demands and strengthen tax governance systems.

Challenges & Risks — What Businesses Should Watch Out For

Challenge / Risk	Description / Implication
Joint and several liability	Minority shareholders or JV partners may still be fully liable for the UAE group's top-up tax, creating exposure if protective agreements are not in place.
Insufficient substance → higher tax	Entities with only a legal presence (shell structures) and minimal staff or assets risk incurring top-up tax and losing free-zone tax benefits.
Complex accounting and transfer-pricing adjustments	Aligning with GloBE standards may require revising intercompany pricing and financial flows, potentially impacting profitability and cash management.
Ongoing compliance burden	Annual calculations, filings, registrations, and record-keeping may strain teams and increase the risk of errors or non-compliance.
Uncertainty around future rules	Although the UAE currently applies only the DMTT, future rule changes (as global standards evolve) could introduce additional obligations; businesses must remain adaptable.

Types of Distribution Models

Strategic Recommendations for Dubai-Based MNEs & Decision-Makers

- **Conduct a DMTT readiness assessment** - Identify in-scope entities (subsidiaries, free-zone companies, JVs), verify group revenue against the €750M threshold, and review historical revenue.
- **Evaluate and enhance substance** - Assess whether UAE entities have adequate staff, assets, and management presence; scale up real operations where needed.
- **Model ETR and top-up tax outcomes** - Run scenario analyses using SBIE to forecast financial impact and guide strategic planning.
- **Implement tax allocation and funding mechanisms** - Set up intercompany agreements to manage joint-and-several liability and allocate top-up tax fairly across entities.
- **Strengthen tax governance and documentation** - Maintain robust accounting, payroll, asset records, TP documentation, and conduct periodic internal audits.
- **Stay updated on regulatory developments** - Monitor future UAE or global changes (e.g., IIR, UTPR, updates to exclusions) and adjust structures proactively.
- **Plan growth with substance in mind** - Align expansions, hiring, and investments to enhance substance, optimize SBIE benefits, and minimize top-up tax exposure.

What DMTT Means for the UAE / Dubai as a Business Hub (Macro Takeaways)

✓ The DMTT strengthens the UAE's alignment with global tax standards, enhancing its credibility as a compliant international business hub.

✓ It incentivizes companies to establish genuine operations, people, offices, and assets rather than relying on "letter-box" entities, driving real economic activity and employment.

✓ For MNEs and investors, a recognized DMTT framework reduces uncertainty around foreign top-up taxes and double taxation, making the UAE comparatively more attractive than jurisdictions with unclear rules

✓ Over time, it discourages aggressive tax-structuring and profit-shifting, fostering a more transparent and stable corporate tax environment and boosting long-term investor confidence.

DMTT Impact & Readiness Checklist for Dubai Businesses

1. Group-Level Eligibility Assessment

A. Revenue Threshold

- Confirm consolidated global revenue ≥ €750M in at least 2 of the last 4 fiscal years.
- Verify numbers against UPE consolidated financials.
- Consider impact of acquisitions/disposals on the threshold.

B. Evaluate Foreign Exposure

- Assess whether the group would otherwise face IIR or UTPR abroad.
- Confirm that UAE DMTT shields UAE profits from foreign top-up taxation.

C. Identify UAE Entities in Scope

- List all UAE Constituent Entities (CEs), including:
  - ✓ Free-zone entities | Branches | Minority-owned subsidiaries | Holding companies | JVs | Reverse-hybrid /stateless entities
- Identify any UAE Excluded Entities (e.g., government, pension fund, investment entity).

2. Financial & Tax Data Readiness

A. Accounting Data

- Ensure financials follow IFRS or equivalent.
- Compile data required for GloBE Income calculations (book income + adjustments).
- Track:
  - Deferred tax | Covered taxes | Permanent/temporary differences | Low-taxed entity details | Consolidation adjustments

B. Tax Data

- Map UAE Corporate Tax filings and ETRs.
- Identify 0% / reduced-rate entities (especially free-zone entities).
- Assess effect of CT exemptions/reliefs on the effective minimum tax.

C. Documentation

Create a DMTT/GloBE file containing:

- Accounting policies
- Asset and payroll registers
- Intercompany transaction summaries
- All GloBE ETR calculations
- Tax computation
- TP Documentation

DMTT Impact & Readiness Checklist for Dubai Businesses

3. ETR & Top-Up Tax Modelling

A. Core Computations

- Calculate UAE GloBE ETR (GloBE income, covered taxes, SBIE, adjustments).
- If ETR < 15%, top-up tax applies

B. Substance-Based Income Exclusion (SBIE)

- Compute SBIE from:
  - Eligible payroll
  - Eligible tangible assets
- Model how greater substance reduces top-up tax.

C. Scenario Modelling

- Run scenarios for:
  - Status quo | Increased substance | Operational restructuring | Relocating IP/functions
- Free-zone income with/without "qualifying income"
- Identify the optimal tax- and operations-aligned structure.

4. Legal, Structural & Governance Considerations

A. Liability & Risk Management

- Note joint & several liability across UAE CEs.
- Implement intercompany agreements allocating DMTT obligations.
- Review JV/minority shareholder agreements.

B. Entity Structure Review

- Reassess whether current entity setup remains efficient. Consider merging or winding down low-substance entities.
- Reevaluate free-zone vs mainland structures.

C. Transfer Pricing

- Ensure TP reflects economic reality and actual substance.
- Update TP documentation to supply GloBE-level data.

DMTT Impact & Readiness Checklist for Dubai Businesses

5. Operational & Compliance Readiness

A. Registration & Filing

- Determine registration requirements with the FTA.
- Identify required filings:
  - Annual DMTT return | Declarations
- Track deadlines:
  - Normal: 15 months post-year-end | Year 1 transition: 18 months

B. Domestic Filing Entity

- Decide whether to appoint a Domestic Filing Entity.
- Put in place intra-group agreements on filing/payment responsibilities.

C. Internal Controls

- Establish streamlined processes for cross-department data collection (Finance, HR, TP, Tax).
- Conduct comprehensive internal audits.
- Prepare thoroughly for potential FTA audits

6. Strategic Business Planning

A. Substance Enhancement

- Assess real functions, staff, assets.
- Plan hiring/function relocation to increase SBIE.
- Move decision-making functions to UAE where appropriate.

B. Investment & Structure Planning

- Evaluate where to establish new entities.
- Reassess viability of free-zone structures in a DMTT environment.
- Consider reorganising holding/IP entities.

C. Global Tax Strategy

- Align UAE DMTT strategy with global Pillar Two compliance requirements and expectations.
- Strengthen collaboration between UAE and global tax teams through structured coordination efforts.
- Prepare board-level DMTT impact briefings with detailed insights and analysis.

7. Ongoing Monitoring & Policy Tracking

A. Regulatory Updates

- Monitor FTA updates on safe harbours, transitional rules, penalties, and audits through ongoing regulatory surveillance.
- Track OECD announcements affecting Pillar Two

B. Technology & Automation

- Explore Pillar Two calculation software.
- Integrate systems capable of extracting GloBE-required data.

C. Annual Review Cycle

- Substance requirements and related operational documentation annually.
- Accounting/tax systems for accuracy and process efficiency annually.
- ETR models with updated assumptions and validations annually.
- Group structure for changes impacting tax positions annually.
- Compliance framework to ensure continued regulatory alignment annually.

How SBC can help?

Impact Assessment & Scenario Planning

- Verify €750M revenue threshold
- Map all UAE Constituent Entities
- Model GloBE ETR & potential top-up tax
- Assess eligibility for transitional & permanent safe harbours

Data & Systems Readiness

- Conduct a GloBE data gap analysis.
- Support Pillar Two system/ERP upgrades.
- Set up required documentation, including the GIR.

Structural & Transfer Pricing Advisory

- Review QFZP benefits vs. DMTT exposure
- Align TP policies with the 15% minimum tax
- Recommend restructuring / functional realignment to optimise SBIE and minimise DMTT

Compliance & Governance

- Develop filing strategy and support DMTT registration
- Embed DMTT requirements into the tax and financial close cycle
- Define roles, responsibilities, and controls across tax and finance teams

In essence, SBC acts as an indispensable partner, translating the highly complex, global Pillar Two/GloBE rules into actionable, local compliance steps tailored for the UAE's specific DMTT framework.

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Local Connect
Global Outlook

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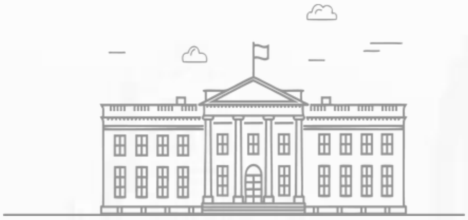

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