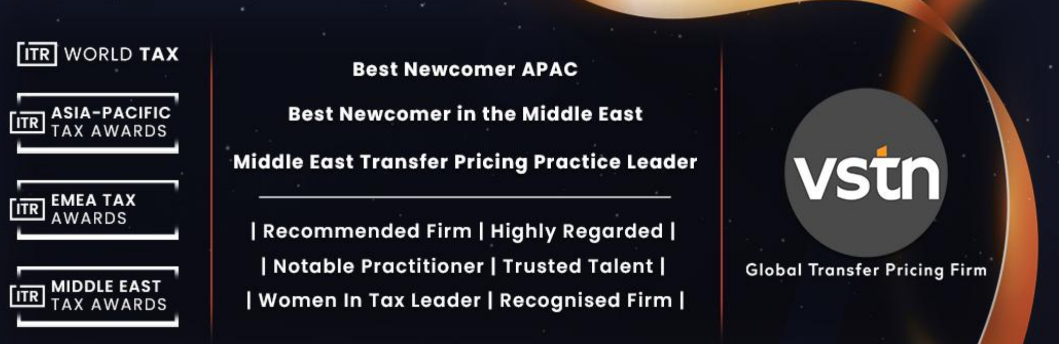
vstn Consultancy

UAE Pillar Two Registration Guidance.



Summary

The Federal Tax Authority (FTA) of UAE has recently released guides on 26 August 2026 regarding application of Cabinet Decision No.142 of 2021 and the attachments to the cabinet decisions (QDMTT legislation") – which implemented Pillar Two rules in UAE. The two guides issued by the FTA are 'Scope and Registration' and 'Excluded Entities and Investment Entities' (collectively referred to as 'the Guides').

The QDMTT legislation is in effect for all fiscal years starting on or after 1st January 2025. The QDMTT legislation provides that the MNE groups which are subject to QDMTT legislation have to register all entities subject to Top up tax in UAE.

The UAE has provided guidance on several areas that MNE groups have to evaluate/consider such as whether the MNE Group meets the applicability criteria for Pillar Two, classification of entities as constituent entities, and which entities are excluded entities. The key aspects / pointers provided in the Guides that warrant MNE Group's attention are summarized in the below alert.

Applicability

A group will be under the scope of pillar two regulations if the group is an MNE group that has a consolidated annual revenue of EUR 750 million or more for two of the preceding four years ('revenue threshold(s)').

The UAE guide has provided detailed explanations on the nuances of both the criteria and expanded on how to evaluate both the criteria for a group.

Considerations w.r.t. Revenue thresholds

When a group is evaluating the criteria for applicability, the following factors should be considered:

- **Merger of Groups or acquisition of an Entity to form a group**
  When groups merge in such a manner to bring substantial part of the groups into common control or where a new group is formed through acquisition of another entity, the revenue of the separate groups is added together for the preceding 4 years to test for the revenue thresholds.

- **Demerger**
  In case an MNE group, for which Pillar Two is applicable, carries out a restructuring to form two or more demerged groups, the demerger groups will be liable to comply with the Pillar Two rules as per the following rules:
  - *For the first year after the demerger*: If the said demerged Group meets the revenue threshold during the year of de-merger.
  - *For the second to fourth years after demerger*: If the said demerged Group revenue meets the revenue threshold in at least two years following the demerger, including the tested fiscal year.

  The above special rule will have to be applied for both the demerged entity(ies) as well as the remaining entity, and not the general rule.

- **Nonstandard Accounting year**
  Pillar Two revenue threshold was framed for an accounting period of 12 months. In cases where the accounting period of the group is longer or shorter than 12 months, UAE law requires the group to proportionally adjust the revenue threshold to reflect the threshold for the accounting year of the group.

- **Excluded Entities**
  Excluded Entities are exempt from Pillar Two regulations, however the revenue earned by excluded entities that are part of a group have to be included while evaluating the revenue threshold for Pillar Two regulations.

Considerations w.r.t. MNE Group

A group meets the MNE condition if it has one or more entity(ies) or a PE not located in the jurisdiction in which the UPE of the group is located.

- **Consolidation based criteria**
  As per QDMTT legislation, a group is defined as entities that are consolidated on a line-by-line basis in the consolidated financial statements of the ultimate parent entity (UPE) – however, this will also include PEs, entities held for sale as well as entities excluded from consolidation solely due to materiality.

- **Permanent Establishment**
  As per QDMTT legislation, the rules for identifying the location of the PE is based on the following:
  a) Where PE is created in accordance with a treaty – in accordance with an applicable Tax Treaty
  b) Where PE is created as under the domestic law – jurisdiction in which it is subject to net basis taxation based on business presence.
  c) PE in the absence of corporate tax system – jurisdiction where it is situated
  d) PE where the source jurisdiction exempts income attributable to operations conducted in that jurisdiction.

For the purposes of QDMTT legislation, PE can be considered to be present even if not recognized under the corporate tax law. Thus, the operations in foreign jurisdiction should be evaluated with respect to the definition of PE as per QDMTT legislation.

Excluded Entities

Excluded entities are those that are not considered for the purpose of calculating jurisdiction effective tax rate and are also not subject to top up tax. As per QDMTT legislation, excluded entities are classified into primary and secondary entities.

Primary Excluded Entities

The Primary Excluded entities are the main entities mentioned as per the QDMTT rules that are not under the purview of QDMTT legislation. These entities are:

a) Governmental Organisation
b) An international organisation
c) A non-profit organisation
d) A pension fund
e) An investment fund that is an UPE
f) A real estate investment vehicle that is an UPE

The Excluded entity guide published by the FTA clarifies the following key points:

- **Pension Funds & Pension Service entity**
  The definition of Pension fund for the purpose for QDMTT legislation is different from the corporate tax law. For QDMTT, pension funds can include unregulated pension funds provided that they are protected by national regulations and funded by a pool of assets held through a fiduciary arrangement or a trustor.

  A pensions service entity incorporated to exclusively to perform the following activities are also considered to be an excluded entity:
  a) Invest fund for the benefit of the pension funds
  b) To carry out ancillary activities to activities of the pension fund

- **Investment fund that is an UPE**
  An Investment Fund that is an UPE is considered to be an excluded entity only if it meets all the seven criteria[1] prescribed by the QDMTT legislation. Hence, a Qualifying investment fund under the corporate tax law may not be an excluded entity under QDMTT legislation.

- **Non-Profit**

---

[1] The criteria are: Entity designed to pool assets from connected and unconnected investors, has a defined investment policy, allows investors to spread costs and risks collectively, designed to generate investment incomes or gains or protection against a particular outcome, investors have the right to returns from the assets of the funds, entity or management is subject to a regulatory regime in the jurisdiction it is managed, managed by professionals.

A non-profit entity is considered to be an excluded entity when it meets all the criteria prescribed by the QDMTT legislation[2]. The criteria for a non-profit as per QDMTT legislation is relaxed in comparison to corporate tax legislation and thus an organisation that is a Qualified Public Benefit entity is likely to be a non-profit organisation as per QDMTT legislation.

- **Sovereign Wealth Fund (SWF)**
  SWF are expected to meet the definition of governmental organisation as per QDMTT legislation. Generally Excluded Entities can be UPE; however, QDMTT legislation provides that any SWF that is an excluded entity cannot be an UPE.

  In such cases, the UPE will be the entity which matches all the following criteria:
  a) SWF holds a direct controlling interest, and
  b) And the said entity owns a direct or indirect controlling interest in another entity or is a Main entity with a PE in another jurisdiction

  A 'holding company' that is wholly owned by SWF (that is also a government entity) will not be considered to be UPE. And the Entity in which SWF holds a controlling interest (directly or indirectly) will be considered as the UPE of the group.

Secondary Excluded Entities

Secondary Excluded Entity is one where:

a) At least 95% of the said entity is owned by a primary excluded entity and
   i. It operates as a holding or investment entity for the benefit of the excluded entity, as well as
   ii. Only carries out activities that are ancillary to those carried out by the excluded entity
b) At least 85% of the value is owned by an excluded entity and substantially all of the Entity's income is excluded dividends or excluded equity gain or loss.

The Guide on "Excluded entities and Investment entities" has specifically mentioned that discussion on Government entity would not form part of the guide.

Registration Procedures

All constituent entities of a qualifying MNE group must register for QDMTT in UAE, thus the registration process can only be carried out after evaluating all the UAE entities of the group. Entities can register individually or nominate a Domestic Designated Filing Entity (DDFE) to register on behalf of all the constituent entities in the group. The DDFE will also be responsible for filing the top up tax returns and settling any top up tax liability the arises.

[2] Criteria include engaging in prescribed activities including restriction on trading related activities, exemption of income earned from such activities in the respective jurisdiction, absence of shareholding (including through beneficial ownership), and restriction on the distribution of assets including in the event of termination, liquidation or dissolution.

Joint Ventures and Domestic JV Group have to register separately; however, the JV group can nominate DDFE to register on behalf of the JV Group.

It is important to note that QDMTT Legislation has its own registration requirements, and entities subject to QDMTT legislation must register for QDMTT irrespective of its registration status for corporate tax purposes.

Upon successful registration a Pillar Two Top Up Tax TRN will be issued individually to all entities, and a group TRN will be issued to the DDFE. For entities already registered for any type of tax with FTA, the first 10 digits will be the Tax Identification Number (TIN) for existing registrations.

During the registration process itself, the tax payer needs to indicate if the UPE/ Designated Filing Entity (DFE) or Designated Local Entity (DLE) will be filing the Pillar Two information Return or GloBE Information return (GIR).

Timeline for Registration

For MNE groups that have the first QDMTT Applicable Fiscal Year ending before 30th April 2026, the registration application should be submitted before 30th November 2026. For all other cases, the application for registration should be submitted within 7 months from the end of the first fiscal year for which the group becomes in scope for the QDMTT legislation.

Penalties

Failure to submit applications for the prescribed timeline will result in an administrative penalty of AED 10,000 for the entity or the DDFE that failed to submit the application. In case of DDFE, the penalty will apply to each entity it fails to submit registration for pillar two. For example, a MNE Group has 5 UAE constituent entities and has appointed one of the entities as DDFE, and in case the said DDFE fails to submit the application within the prescribed time limit, the penalty would be AED 50,000 (AED 10,000 * 5 entities).

Interactions with Corporate Tax laws

Under QDMTT Legislation, any judicial person or an arrangement that prepares separate financial accounts is considered as a separate entity. An analysis of whether such entity is subject to Top up tax should be made through evaluation of the QDMTT legislation. Further, it is to be noted that there are certain aspects where QDMTT legislation deviates from Corporate Tax legislation which are as follows:

Exempt Entities

Under the Corporate Tax law, certain businesses / activities – such as entities in Extractive businesses or non-extractive natural resources business, the income is not subject to corporate tax. However, these entities will be subject to QDMTT legislation and consequently Top up Tax, unless they meet the criteria for being classified as an excluded entity.

Unincorporated Partnership

Unincorporated partnership such as partnership or trust, that prepares financial statement is not considered to be a separate taxable person, as per Corporate Tax law. However, in respect of QDMTT legislation, they may be subject to top up tax. There is no requirement for an entity to be a legal person (legal fiction created by any Tax laws) for it to be considered for QDMTT purpose,

Permanent Establishment

In case of certain business activities, income is not subject to tax irrespective of whether the entity is resident or non-resident (PEs) – for example extractive business. In this case such the PE would be treated as constituent entity and if there is no tax treaty between UAE and such other jurisdiction, these PE would be under the purview of QDMTT and consequently be subject to top-up tax, unless they are excluded entities as per QDMTT.

For PEs which have exemptions which are not available to resident taxpayers, for e.g., Operation of international aircraft by a non-resident entity is exempt from corporate tax, these entities are not subject to top tax if the jurisdiction of the main entity also exempts the income from the source entity.

Tax Group

UAE allows certain group entities to form a tax group for corporate tax purposes wherein all the intra group transactions will be eliminated and the tax Group will register for CT purposes and file a consolidated CT return . QDMTT legislation has allowed for a 5-year election to consolidate all the group entities and eliminate intra group transactions. In case where for purpose of Corporate tax, certain entities are considered as tax Group but does not exercise this election, there would be a mismatch under the QDMTT legislations.

Flow Through Entities

QDMT legislation has provided detailed guide on classification of entities such as Tax Transparent, Hybrid or a reverse hybrid entity.

For instance, a Tax Transparent Flow through Entity created under the UAE corporate tax laws is not subject to top up tax unless the entity is UPE of a group. If a Flow through entity that was created in UAE is both a reverse hybrid entity and a tax transparent entity, it will need to register with FTA. The residence of the Flow through entities must be evaluated as per the criteria laid out in the QDMTT legislation.

Qualifying Free Zone Person

Qualifying Free Zone Persons (QFZP) will have to undertake an analysis to determine whether such persons are also excluded entities for the purpose of QDMTT.

Where the QFZP are not excluded entities, they will come under the purview of QDMTT and be subject to Top up tax. Such QFZP will have to register under QDMTT regulations.

Conclusion and Key Takeaways

QDMTT Registration Application for CY 2025 or FY 25-26 have to be submitted by 30th November 2026, within 3 months. MNE groups have to carefully analyze if it meets the revenue threshold. Groups which have had mergers or demergers should pay special attention as a modified revenue threshold is applicable. More importantly, standalone entities in UAE with PEs in other jurisdictions (such as foreign branches) will also come under QDMTT legislation.

MNE groups that are subject to QDMTT legislation will have to evaluate all entities in UAE to classify them as constituent entities or excluded entities. JV group also require separate registration. Further, in case a constituent entity is wrongly classified as an excluded entity, it may lead to a penalty due to failure to submit registration.

Under UAE Corporate Tax, certain persons or activities were exempted, and therefore corporate tax registration may not have been undertaken. However, such persons might be subject QDMTT. In such cases the Corporate Tax registration would have to first be undertaken, in order to register under QDMTT legislation.

Therefore, businesses should note that the registration process as per QDMTT legislation is not a simple exercise but rather culmination of detailed analysis of QDMTT regulations mentioned above, and MNE groups have to be proactive to ensure timely compliance.

About us

VSTN Consultancy is a Global Transfer Pricing firm with extensive expertise in the field of transfer pricing having its offices in India, Singapore, UAE, USA, and the KSA. VSTN Consultancy has been awarded by International Tax Review (ITR) as Best Newcomer in Asia Pacific – 2024 | Middle East Transfer Pricing Practice Leader of the Year 2025 | Middle East Best Newcomer of the year - 2025 and is ranked as one of the Recommended Transfer Pricing Firms. VSTN Consultancy has been shortlisted in other awards as finalist by ITR for Tax Innovator, Tax Compliance and Reporting Firm, Transfer Pricing Leader , Transfer Pricing Rising Star in Asia Pacific – 2025 | Best Newcomer, Tax Innovator and Transfer Pricing Leader in EMEA – 2025. VSTNs senior partners have been ranked in ITR in the list of recognised Practitioners.

Our offering spans the end-to-end Transfer Pricing value chain, including design of intercompany policy, drafting of Interco agreement, ensuring effective implementation of the Transfer Pricing policy, year-end documentation and certification, Global Transfer Pricing Documentation, BEPS related compliances (including advisory, Masterfile, Country by Country report), safe harbor filing, audit defense before all forums, Pillar 2 Analysis advice and dispute prevention mechanisms such as Advance Pricing agreement.

We are structured as an inverse pyramid where leadership get involved in all client matters, enabling clients to receive the highest quality of service.

Being a specialized firm, we offer advice that is independent of an audit practice and deliver it with an uncompromising integrity.

Our expert team brings in cumulative experience of over several decades in the transfer pricing space having worked with multiple Multinational Companies across sectors/industries and have cutting edge knowledge and capabilities in handling complex TP engagements..