

UAE R&D Tax Credit: Key Insights for Businesses



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What's new?

The UAE has introduced a dedicated Research and Development (R&D) Tax Credit regime through Cabinet Decision No. 215 of 2025 and Ministerial Decision No. 24 of 2026, marking a significant step in promoting innovation under the Corporate Tax framework. Effective from 1 January 2026, the regime provides qualifying entities with tax credits on eligible R&D expenditure, subject to defined thresholds, workforce requirements, and compliance obligations. The tiered credit rates reflect the government's focus on promoting substantive, locally driven R&D activities.



Purpose: Designed to incentivize meaningful R&D investment and support local technological and process development.



Tax Benefit: Provides a non-refundable credit that directly reduces the company's Corporate Tax liability.



Qualifying R&D Activities: An activity conducted in the State as part of an R&D Project shall be considered a Qualifying R&D Activity where it meets all of the conditions mentioned in the Article 3 of the Ministerial Decision No. 24 of 2026



Qualifying Entity (QE): A juridical person, either:

1. Incorporated or otherwise established or recognized in the UAE (including Free Zone entities) and carrying out Qualifying R&D Activities, subject to Corporate Tax and/or Top-up Tax; or
2. Incorporated or otherwise established or recognized abroad but conducting Qualifying R&D Activities in the UAE through a Permanent Establishment, with income from the PE subject to Corporate Tax and/or Top-up Tax.

What Qualifies as R&D?

An activity conducted in the State as part of an R&D Project shall be considered a Qualifying R&D Activity where it meets **all** the conditions



It is novel, in that it aims to produce new findings.



It is creative, involving original concepts or hypotheses.



It is uncertain, in that the outcome or means of achieving it are not known in advance.



It is systematic, following a plan and budget.



It is transferable or reproducible, such that its results can be applied or replicated in other contexts.

R&D Tax Credit: At a Glance

Maximum Qualifying R&D Expenditure per Qualifying Entity or Tax Group in each Tax Period or Fiscal Year (AED)	Average number of R&D Staff per Qualifying Entity or Tax Group in each Tax Period or Fiscal Year	R&D Tax Credit Rate
First 1 million	At least 2	15%
The portion exceeding 1 million and up to 2 million	At least 6	35%
The portion exceeding 2 million and up to 5 million	At least 14	50%

Note: The R&D Tax Credit shall be calculated by applying the applicable rate to the portion of Qualifying R&D Expenditure that falls within each corresponding threshold shown in the above table.

Tax Credit Use

The R&D Tax Credit can be applied against Corporate Tax and/or Top-up Tax for the Qualifying Entity, Tax Group, Domestic Group, or other relevant persons, and it is non-refundable

Aggregation for Tax Groups

If a Tax Group has multiple QE, the total R&D expenditure and R&D staff are combined to determine eligibility thresholds. For entities in a Cost Contribution Arrangement, the R&D staff count includes all employees (or equivalents) actively engaged in the joint R&D

Average R&D Staff Calculation

The average number of R&D staff per entity is calculated by summing staff for each month in the Tax Period or Fiscal Year (full or part months) and dividing by the number of months R&D activities were conducted.

Qualifying Expenditure – Practical Breakdown

Included:

- Staff costs – staff located in the state under the supervision, direction and direct control of the Qualifying Entity. **(with 30% uplift)**
- Consumables (fuel, materials, trial costs, etc.)
- Subcontracting (only within UAE)
- Arm's length share of contributions under cost contribution arrangements

Important Restrictions:

- No intra-group recharges
- No double benefits
- Must be **wholly and exclusively** for R&D

Subcontracted R&D Activities:

For subcontracted R&D, the staff count includes both the entities and the subcontractor's employees directly involved in the qualifying R&D.

Cost Contribution Arrangements:

R&D expenditure counts only the portion contributed by the entity. Staff count includes all employees (or equivalents) actively engaged in the joint R&D activities during the period.

Meeting Credit Thresholds:

To get a specific R&D Tax Credit rate, both the expenditure and average R&D staff thresholds must be met. If either threshold is not reached, the credit rate is adjusted down to the highest rate for which both thresholds are satisfied.

Utilisation, Carry Forward of Tax Credit:

- Non-refundable credit
 - Must be used first before carry forward
 - Carry forward allowed with conditions:
- ✓ **Ownership Continuity:** The R&D Tax Credit can be utilised only if at least 50% ownership of the entity remains with the same person(s) from the time the credit arises until it is used.
- ✓ **Change in Ownership:** If ownership changes by more than 50%, the credit can still be used only if the entity continues the same or a similar business activity.

Note: The change of ownership shall not apply to Qualifying Entities whose shares are listed on a Recognised Stock Exchange.

Transfer of R&D Tax Credit



Transfer Eligibility: A Qualifying Entity (**transferor**) can transfer unused R&D Tax Credit to another entity (**transferee**) if there is at least 75% common ownership (or one owns the other), maintained throughout the relevant period.



Utilisation by Transferee: The transferee must use the credit against its own Corporate Tax and/or Top-up Tax liability in the same Tax Period.



Usage Limit: The transferred credit cannot exceed the transferee's remaining tax liability after using its own R&D Tax Credit.



No Carry Forward or Further Transfer: The transferee cannot carry forward or transfer the credit further.



Adjustment by Transferor: The transferor must reduce its available R&D Tax Credit by the amount transferred.

Pre-Approval Requirement

- **Mandatory Pre-Approval:** A Qualifying Entity must obtain approval from the Council before claiming the R&D Tax Credit for any R&D project, in the prescribed form and within the specified timeline.
- **Ongoing Compliance:** The Council may require the entity to submit progress updates and supporting technical documentation to ensure the activities and expenses remain aligned with the approved R&D project.

Compliance & Documentation

- 7-year record keeping
- Detailed technical documentation associated with the Qualifying R&D Activities is required like:
 - Objectives
 - Methodology
 - Experiments
 - Results



R&D Tax Credit to Tax Groups

Credit Use: R&D Tax Credit of a Qualifying Entity in a Tax Group is applied against the Corporate Tax liability of the Tax Group. Credits must be used against Corporate Tax before being applied to Top-up Tax, carried forward, or transferred.

Pre-Grouping Credits: Any unutilised R&D Tax Credit of a QE joining a Tax Group (“pre-Grouping R&D Tax Credits”) is used first to offset the Tax Group’s Corporate Tax liability.

Leaving the Tax Group: If a Qualifying Entity leaves, the Tax Group keeps the R&D Tax Credit, except for any unutilised pre-Grouping credits, which remain with the entity.

Claw-Back: If a member did not meet R&D conditions for a project, any credit used to reduce the Group’s Corporate Tax must be repaid to the Authority. Tax Group members are jointly and severally liable for clawed-back amounts, unless the Authority approves limiting liability to specific members.

Penalties: The Parent Company is responsible for any penalties related to clawed-back credits, treated as Due or Payable Tax. The Parent is responsible for pre-approval, submitting R&D Tax Credit claims with the Tax Return, and complying with all related obligations.

Cessation of Tax Group:

- If the Parent Company remains taxable, the Group’s R&D Tax Credits stay with the Parent, except unutilised pre-Grouping credits.
- If the Parent Company ceases to be taxable, Group credits are forfeited, except unutilised pre-Grouping credits.

Artificial Separation of Business & Anti-Abuse Rules

- If the Authority finds that one or more persons have split their business artificially to claim R&D Tax Credits, any utilised credit will be clawed back as Payable or Due Tax, and unutilised credit will be forfeited.
- The Authority considers whether the separation had a valid commercial purpose and whether the businesses are substantially the same, looking at financial, economic, and organisational links.
- Any arrangement primarily aimed at increasing R&D Tax Credits without genuine R&D substance can be counteracted, with utilised credits clawed back and unutilised credits forfeited.

Five-Year Claw-Back Rule:

Within five years of claiming an R&D Tax Credit, if a Qualifying Entity:

- ✓ *Ceases to be taxable,*
- ✓ *Becomes a Qualifying Free Zone Person,*
- ✓ *Applies small business relief,*
- ✓ *Enters liquidation, or*
- ✓ *Redomiciles outside the UAE,*

Then utilised credits must be clawed back, and unutilised credits are forfeited.

How BAM Advisors can assist your business:

- Our team helps businesses determine eligibility for the UAE R&D Tax Credit and assess R&D projects.
- Identify and quantify qualifying R&D expenditure, including staff costs, consumables, and subcontracting.
- Guide businesses through the mandatory pre-approval process with the Emirates Research and Development Council.
- Support preparation of technical documentation to substantiate R&D activities and associated expenses.
- Accurately calculate R&D Tax Credits and assist in filing claims with Corporate Tax or Top-up Tax returns.
- Advise on utilisation, transfer, carry-forward of credits, and manage compliance risks including claw-back and anti-abuse provisions.

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