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Significant amendment to UAE Fund tax exemption rules: New Cabinet Decision replaces 2023 framework

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The Ministry of Finance of the United Arab Emirates ("**UAE**") has published Cabinet Decision No. 34 of 2025 (the "**New Cabinet Decision**"), replacing the earlier Cabinet Decision No. 81 of 2023, significantly amending the **conditions to benefit from the tax exemption regime** for **Qualifying Investment Funds ("QIFs")** and **Qualifying Limited Partnerships** under **Federal Decree-Law No. 47 of 2022** on the taxation of corporations and businesses ("**Corporate Tax Law**").

The New Cabinet Decision aims to further position the UAE as a leading investment hub by **removing restrictive requirements** and **introducing a more flexible exemption regime** for fund structures, while also ensuring adequate reporting and transparency at the investor level.

Although Cabinet Decision No. 81 of 2023 continues to apply to Tax Periods[1] beginning before 1 January 2025, **New Cabinet Decision No. 34 of 2025 will apply to all Tax Periods commencing on or after that date**.

We describe hereafter the amendments provided by the New Cabinet Decision to UAE Fund tax exemption rules.

Conditions to exempt a Qualifying Investment Fund from Corporate Tax

Under the Corporate Tax Law[2], an investment fund may apply to the Authority to be exempt from Corporate Tax as a QIF where all of the following conditions are met:

- The fund or its manager is subject to regulatory oversight by a UAE competent authority or a recognized foreign authority;
- The fund is listed on a Recognized Stock Exchange, or its interests are marketed and made available sufficiently widely to investors;
- The principal purpose of the fund is not to avoid Corporate Tax;
- Any additional conditions as may be prescribed in future Cabinet Decisions.

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[1] All terms in capital letters that are not defined in this article shall be interpreted as defined under the UAE corporate tax laws.

[2] Conditions under Clause (1) of Article (10) of the Corporate Tax Law.

Additional conditions introduced by the New Cabinet Decision:

- **Principal business activity** (already covered by the previous Cabinet Decision): The fund's main activity must be *Investment Business*. Any other activities must be *ancillary or incidental*, and their combined revenue must not exceed **5% of the fund's total revenue** in the relevant financial year.
- **No investor day-to-day control** (already covered by the previous Cabinet Decision): Investors must not exercise day-to-day control over the fund.
- **Transparency obligation** (new condition by the New Cabinet Decision): Investors must be provided with all information necessary to compute their adjusted taxable income.

Previously, under Decision No. 81 of 2023, failure to meet the conditions would not immediately cause a QIF to lose its status of Exempt Person (but only from the beginning of the third Financial Year of its establishment). Under the New Cabinet Decision, this grace period has been removed.

Key conditions removed (compared to Decision No. 81 of 2023):

- The Diversity of Ownership Condition (as defined below);
- The minimum staffing requirement for the investment manager (i.e. the requirement to have at least three investment professionals).

Investor Income from a Qualifying Investment Fund

The New Cabinet Decision modifies the treatment of taxable investors in a QIF.

Under the previous framework, and as explained in the 2024 Investment Funds and Investment Managers Corporate Tax Guide published by the Ministry of Finance (the "**Guide**"):

- Taxable Persons in a QIF were required to include in their taxable income their proportionate share of the net income available for distribution as reflected in the QIF's financial statements, regardless of whether a distribution was actually made.
- The character of the income (e.g., exempt income, interest income, real estate income, other taxable income) flowed through to the Taxable Persons in the same nature and proportion.
- Actual distributions received by the Taxable Persons were not taxed again, provided that the underlying income had already been previously reported by the Taxable Persons.

Under the New Cabinet Decision:

- Profit distributions received by a Taxable Person from an exempt QIF are excluded from taxable income.
- There is no mention to include, at the level of the Taxable Persons, in their income, their proportional share of the amount reflected as net income available for distribution in the financial statements of the QIF, except under specific conditions, as described below.

However, **specific conditions** will **trigger an exception**, requiring **juridical persons** (excluding Real Estate Investment Trusts ("**REIT**") investors) to adjust their taxable income **upwards.**

Upward adjustments are required where **one** of the following conditions is met:

- the QIF has a single investor and its Related Parties that own 30% or more of the ownership interests in the QIF, where the QIF has less than ten investors; or 50% or more, where the QIF has ten or more investors (the "**Diversity of Ownership Condition**");
- the value of the Immovable Property located in the UAE held by the QIF as a percentage of the total value of the assets of the QIF (the "**Immovable Property Percentage**") is above 10% in its financial year.

Investor-level upward adjustment only:

Breaches of the Diversity of Ownership Condition or the Immovable Property Percentage **do not disqualify the QIF from its exempt status.** Only the **relevant investors** must make a taxable income adjustment.

In case of breaches of the Diversity Ownership Condition, the Taxable Income of juridical persons that are investors in the QIF shall include their **prorated share of the QIF's net profit**, as reported in the QIF's financial statements.

If the QIF exceeds the 10% Immovable Property threshold, only **80%** of the income derived from UAE Immovable Property will be subject to UAE Corporate Tax at the investor level. Under Decision No. 81 of 2023, **100%** of such income had to be included.

Grace period maintained for ownership test:

As under the previous decision, the **Diversity of Ownership Condition does not apply during the first two financial years** of the QIF, provided the fund demonstrates an intention to comply by the third year.

Exception for Real Estate Investment Trust and REIT investors

The **additional conditions** introduced by the New Cabinet Decision for QIF **do not apply to REITs.**

Instead, the New Cabinet Decision sets out a **distinct set of conditions** for REITs, which largely mirror those previously provided under Cabinet Decision No. 81 of 2023. These include:
- the **REIT minimum real estate asset value condition**;
- the **REIT ownership condition**; and
- the **REIT real estate percentage condition**.

In addition, REITs are now required to **provide their investors with all necessary information, documents, and data** to allow for the calculation of their adjusted taxable income, in line with the New Cabinet Decision.

From a tax perspective:
- The **Taxable Income of a Taxable Person** that is an investor in an exempt REIT shall be **adjusted to exclude any profit distributions** received from the REIT.
- However, the **Taxable Income of a juridical person** that is an investor in an exempt REIT shall, in principle, be **adjusted to include 80% of the prorated Immovable Property Income**, with such income being **further adjusted to reflect depreciation deductions**.

This approach aligns with the **regulatory distribution obligations** applicable to REITs in the UAE, thereby ensuring **coherence between the tax and regulatory frameworks**.

Qualifying Limited Partnership

The **New Cabinet Decision introduces a specific provision** allowing certain limited partnerships to qualify for effective **Corporate Tax exemption.**

To that end, the **New Cabinet Decision** provides that a **limited partnership that is a juridical person**, established under the applicable legislation in force in the State **solely for the purpose of collective investment**, and created under a **legal framework that explicitly allowed for such partnerships on or before 1 June 2023** (or any other legal framework as may be prescribed by the Minister), may apply to the Authority to be treated as **exempt from Corporate Tax** where all of the following conditions are met:

- The **principal business** of the Qualifying Limited Partnership must be **Investment Business**. Any other business or business activities must be **ancillary or incidental** to the Investment Business.
- The Qualifying Limited Partnership **must not derive any income** from a **right in rem**, the **sale, disposal, or assignment of rights therein**, or the **direct use, letting (including subletting), or other forms of exploitation** of **immovable property located in the UAE**.
- The **main or principal purpose** of the Qualifying Limited Partnership **must not be to avoid Corporate Tax.**

In addition, a **juridical person that is wholly, directly or indirectly owned and controlled** by a Qualifying Limited Partnership that is exempt from Corporate Tax may also apply for exemption, provided it meets all of the following conditions:

- It carries out one or more of the following activities:
  - Undertakes part or all of the activity of the Qualifying Limited Partnership;
  - Is engaged exclusively in **holding assets or investing funds** for the benefit of the Qualifying Limited Partnership;
  - Carries out only **activities ancillary** to those conducted by the Qualifying Limited Partnership.
- It **does not derive any income** from a **right in rem**, the **sale, disposal, or assignment of rights therein**, or the **direct use, letting (including subletting), or other forms of exploitation** of **immovable property located in the UAE**.

From a tax perspective:

- The **Taxable Income of a Taxable Person** that is an investor in a **Qualifying Limited Partnership** exempt from Corporate Tax shall be **adjusted to exclude any profit distributions** received from the partnership.
- However, if the investor is a **juridical person** that is a Taxable Person, the Taxable Income shall be **adjusted to include its proportional share** of:
  - the prorated **net income** of the Qualifying Limited Partnership, and
  - the prorated **net income** of any juridical person that is exempt from Corporate Tax and **wholly owned and controlled** (directly or indirectly) by the Qualifying Limited Partnership, as reflected in the financial statements.

Where the investor in a Qualifying Limited Partnership that is exempt from Corporate Tax, is a Non Resident Person, it may appoint directly, or through the Qualifying Limited Partnership or its investment manager, a tax agent to act on its behalf in respect of its tax procedure obligations.

Unincorporated Partnership

According to the New Cabinet Decision, an unincorporated partnership that is treated as taxable person may also apply to be exempt from Corporate Tax as a QIF, provided that all the relevant conditions specified in the Corporate Tax Law and the New Cabinet Decision are met.

Stay tuned for a dedicated newsletter on Cabinet Decision No. 35 of 2025, which will clarify when a non-resident juridical investor in a QIF or REIT is considered to have a nexus in the UAE — and therefore becomes subject to Corporate Tax.

Do you have any questions?

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