

ATOZ ALERT

UAE public clarification released on the application of the valuation method under the transitional rules for real estate developers

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On 26 September 2025, the Ministry of Finances (“**MoF**”) of the UAE issued a corporate tax public clarification (the “**Public Clarification**”) on the application of the valuation method under the transitional rules as set out in Ministerial Decision No. 120/2023 on the Adjustments Under the Transitional Rules for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations (“**Ministerial Decision No. 120 of 2023**”). Transitional provisions bridge the gap between pre- and post-CIT periods, ensuring fairness for investors regarding gains accumulated before CIT implementation.

This Public Clarification explains how real estate developers who are subject to UAE Corporate Tax should apply the transitional rules when disposing of “Qualifying Immovable Property” (such as land or buildings) that was owned before the start of their first Tax Period. This guidance applies to real estate developers who make off-plan sales and recognise revenue from those sales over the construction period, in accordance with IFRS 15 or an equivalent standard under IFRS for SMEs, for projects that are still under construction and not completed before the start of the first Tax Period.

Key scenarios addressed:

- Land owned before the first Tax Period, with construction starting after the first Tax Period.
- Projects already in progress at the start of the first Tax Period, with construction begun before that period.

The Public Clarification aims to provide certainty for real estate developers, helping them to correctly apply the transitional rules and avoid overpaying tax on historical gains.

Background

The introduction of Corporate Income Tax (“CIT”) in the UAE marked a major shift from its previous tax-free environment. To help businesses adapt, the government has implemented transitional provisions under the UAE Federal Decree-Law No. 47/2022 and Ministerial Decision No. 120/2023 on the Adjustments Under the Transitional Rules for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations (“**Ministerial Decision No. 120 of 2023**”).

A taxpayer’s opening balance sheet for CIT purposes is the closing balance sheet prepared under applicable accounting standards on the last day of the financial year immediately before the first Tax Period, subject to any prescribed adjustments.

For those transitioning to CIT, the opening balance sheet for tax purposes matches the closing balance sheet of the financial year ending just before the first tax period. For entities using the Gregorian calendar, closing balances as of 31 December 2023 become the opening balances for the first tax period starting 1 January 2024.

Under the transitional rules, taxpayers holding Financial Assets, Financial Liabilities, Immovable Property, or Intangible Assets before the first Tax Period, and recorded on a historical cost basis, may elect to adjust their Taxable Income. This adjustment excludes gains or losses attributable to periods before CIT introduction. The election is optional but, once made in the first Tax Period, is generally irrevocable except in exceptional cases.

The purpose of these rules is to prevent CIT being charged on gains or losses realised after CIT implementation that accrued before CIT was introduced. Taxpayers can rebase asset values, locking in gains on certain assets (like real estate, intellectual property, and financial assets) that accrued before CIT, so these are not taxed under the new regime, but cannot claim additional depreciation or amortisation on the rebased value.

Guidance provided in the Public Clarification

There are two methods for calculating the excluded gain: the valuation method and the time apportionment method. This Public Clarification covers the valuation method only.

Affected real estate developers

The Public Clarification primarily impacts real estate developers who:

- Owned land or property before their first tax period, and
- Recognise revenue from off-plan sales over the construction period (in line with IFRS 15 or equivalent standards).

Qualifying Immovable Property targeted by the Public Clarification

To qualify as “Immovable Property” under the transitional rules, an asset must first meet the definitions set out in Article 1 of Cabinet Decision No. 56 of 2023 and Article 1 of Cabinet Decision No. 35 of 2025. Under these definitions, immovable property includes:

- Any area of land where rights, interests, or services can be established.
- Any building, structure, or engineering work that is permanently attached to the land or seabed.
- Any fixture or equipment that forms a permanent part of the land or is permanently attached to a building, structure, engineering work, or the seabed.

For real estate developers, any part of a real estate project – land, property, or building, completed or under construction – is considered immovable property. Classification under IFRS or IFRS for SMEs (fixed asset or inventory) does not affect transitional rule application.

To be treated as “Qualifying Immovable Property” for transitional rule purposes, the following conditions must be satisfied:

- Ownership must have commenced before the first Tax Period.
- The asset accounted for at historical cost. Assets held at fair market value are excluded.
- The asset must be disposed of (or deemed disposed of) during or after the first Tax Period for a value exceeding its net book value.

Examples of assets that may qualify include:

- Land parcels acquired before the first Tax Period, with construction starting on or after the first Tax Period (only land parcels qualify).
- Projects where construction began before the first Tax Period and continues after (the whole project may qualify).
- Projects fully constructed before the first Tax Period, sold or intended to be sold after the start of the first Tax Period.

If any element of a project did not exist before the first Tax Period (not recognised in the opening balance sheet), gains from its disposal cannot be adjusted under transitional rules.

Valuation method: Excluded gain in relation to a Qualifying Immovable Property

While taxpayers have only one method available to apply the transitional adjustment to Qualifying Intangible Assets and Qualifying Financial Assets and Liabilities, taxpayers holding Qualifying Immovable Property can select between two methods of exclusion. The transitional provisions apply individually for each Qualifying Immovable Property, allowing taxpayers to selectively apply the election on an asset-by-asset basis.

The Clarification focuses on the “valuation method” for calculating the excluded gain. This method compares the market value of the qualifying property at the start of the first tax period with the higher of its original cost or net book value at that date. The difference (the “excluded gain”) is then apportioned over the relevant tax periods as revenue is recognised.

Excluded gain = Market Value at start of first Tax Period – higher of original cost or net book value at that date.

The Public Clarification includes practical examples showing how to apply the rules in different scenarios, such as projects where construction started before or after the first tax period.

Market value

Under the valuation method, excluded gains are based on market value at the start of the first tax period. Importantly, such market value must be assessed and approved by the relevant governmental authority of each Emirate, such as the Department of Municipalities and Transport (DMA) in Abu Dhabi, the Dubai Land Department (DLD) in Dubai, or corresponding authorities in other Emirates. The Market Value may also be determined by outsourced third parties authorised by the government competent authority (accredited valuers specified by the relevant government competent authority).

The Market Value must be determined and obtained in relation to Qualifying Immovable Property only. Therefore, some adjustments may be required:

- If part of a real estate development project was already sold or considered sold before the first tax period began, that portion is not eligible for transitional tax adjustments. Therefore, the Market Value of the project must be reduced to exclude the value of that disposed portion. This exclusion should be calculated in a fair and reasonable way.
- If a real estate development project includes Immovable Property – such as communal areas – that will not be sold to customers and is instead retained by the developer, then the Market Value must be adjusted to exclude these areas. This adjustment should be made on a fair and reasonable basis.
- If a real estate project is still under construction at the start of the first tax period, its Market Value might incorrectly reflect a fully completed state. To ensure accuracy, the value should be adjusted to reflect its partially completed condition, using a fair and reasonable approach.

Costs

Real estate developers incur costs such as land, construction, and related expenses, often recorded as capital work in progress. At the start of the first Tax Period, these costs can be used as original cost and net book value for transitional adjustments, provided they relate only to qualifying property held at that time.

However, if part of these costs was already recognised in the income statement before the first Tax Period (for example, in ongoing projects where revenue recognition began earlier), that portion is considered already disposed of and does not qualify for adjustment under the transitional rules. Therefore, only the part of the project not previously recognised in income can be included in the transitional adjustment calculation.

Conclusion

By applying these transitional rules, eligible taxpayers can exclude a portion of gains from their taxable income, reducing their Corporate Tax liability for gains that relate to periods before the tax was introduced.

However, to that aim, from a compliance point of view, taxpayers must obtain a market value assessment from an accredited valuer and make the election in their first tax return. The choice of method is generally irrevocable except in exceptional cases approved by the FTA. Proper documentation and calculations are essential to support the exclusion and ensure compliance during tax authorities audits.

Do you have any questions?



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