

# ATOZ ALERT

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## UAE releases new research and development (R&D) tax credit framework

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The UAE tax authorities have recently published two key legislative instruments that complete the regulatory framework governing the Research and Development (“R&D”) Tax Credit under the UAE Corporate Tax regime. The framework is established through the issuance of:

- [Cabinet Decision No. 215 of 2025 on Research & Development Tax Credit](#), and
- [Ministerial Decision No. 24 of 2026](#) on the Implementation of Certain Provisions of Cabinet Decision No. 215 of 2025.

Together, these decisions introduce a structured R&D Tax Credit regime applicable for Tax Periods or Fiscal Years commencing on or after 1 January 2026, and provide detailed guidance on eligibility, computation, utilisation and compliance requirements.

In this Alert, we outline the conditions for the application of the new R&D Tax Credit framework and discuss its implications for UAE businesses.

### Overview of the R&D Tax Credit Regime

The Cabinet Decision establishes the legal basis for an R&D Tax Credit available to qualifying entities undertaking qualifying R&D activities within the UAE. The credit is calculated as a percentage of qualifying R&D expenditure and may be utilised against Corporate Tax and, where applicable, Top-up Tax liabilities under Pillar Two, subject to the conditions set out in the legislation (Cabinet Decision No. 215 of 2025 on Research & Development Tax Credit).

The regime is designed to support innovation-driven businesses by incentivising investment in eligible R&D projects conducted in the State, while introducing a detailed governance and control framework.

## Conditions to claim the R&D tax credit for qualifying R&D activities

Access to the R&D Tax Credit is subject to strict eligibility conditions. A qualifying entity must, among other requirements:

- Employ a minimum number of staff directly engaged in qualifying R&D activities, as determined by the Minister;
- Obtain mandatory pre-approval for each R&D project and comply with ongoing reporting and compliance obligations;
- Bear the economic risk and financial burden of the R&D activities;
- Retain a beneficial interest in the results of the R&D, including the exploitation of resulting intellectual property; and
- Conduct R&D projects with a genuine objective to increase knowledge or develop new applications.

Qualifying R&D activities must be novel, creative, uncertain, systematic and transferable, in line with internationally recognised standards, and must be carried out within the UAE. For R&D Projects carried out both inside and outside the State, only the portion of R&D activities undertaken within the State is eligible for the R&D Tax Credit. Activities in social sciences, humanities and the arts are expressly excluded.

Additional conditions apply to qualifying Free Zone entities, which must be subject either to the 9% Corporate Tax on income derived from qualifying R&D activities or to the Top-up Tax regime.

The R&D Tax Credit is applicable to tax groups and domestic groups under Pillar Two.

## Excluded entities

Certain entities are expressly excluded from benefiting from the R&D Tax Credit. These include, in particular:

- Entities that are neither subject to Corporate Tax nor Top-up Tax;
- Entities that have elected for small business relief under the Corporate Tax Law; and
- Any other categories of entities that may be designated by the Minister.

## Qualifying R&D expenditure

Only specifically defined categories of expenditure qualify for the R&D Tax Credit, provided they are incurred by a Qualifying Entity in the relevant Tax Period or Fiscal Year, wholly and exclusively for qualifying R&D activities.

These include:

- Staff costs directly attributable to R&D activities (with a statutory 30% uplift for overheads);
- Consumable costs used and consumed in the R&D process;
- Subcontracting fees for qualifying R&D activities carried out within the UAE;
- Contributions under qualifying cost contribution arrangements, subject to arm's length principles; and
- Any other category of expenditure as may be specified in a decision issued by the Minister.

Any of the above listed costs, defined by the Cabinet and Ministerial Decisions, are also qualifying R&D Expenditure when they are capitalised under the applicable accounting standards in respect of internally generated intangibles resulting from Qualifying R&D Activities.

A minimum expenditure threshold of AED 500,000 applies per R&D project, and expenditure funded by grants or benefiting from other incentive, credit, exemption or relief is excluded.

## Utilisation and carry-forward of the R&D tax credit

Under conditions provided by the Ministerial Decision, the R&D Tax Credit must first be utilised against the relevant Corporate Tax and/or Top-up Tax liability for the period in which it arises. Any unused credit may generally be carried forward to future periods, subject to ownership continuity and business continuity conditions.

Earlier-year credits must be used before later-year credits, and further restrictions may apply based on ministerial guidance.

## Transfer of R&D tax credits and business restructuring

The rules allow, under strict conditions, for the transfer of unused R&D Tax Credits to other group entities with sufficient common ownership. However, transferred credits are subject to limits and cannot be further transferred or carried forward by the recipient.

Special provisions apply in the context of business restructurings, allowing credits to be retained or transferred where qualifying R&D activities continue.

## R&D tax credit rate and application

The R&D Tax Credit is calculated as a percentage of qualifying R&D expenditure, with tiered rates determined by reference to both expenditure levels and the average number of R&D staff employed.

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%

The credit may be used to offset Corporate Tax and, where applicable, Top-up Tax liabilities. Refundability, applicable rates and detailed computational rules are determined by ministerial decision.

## Procedural and compliance aspects

Claims for the R&D Tax Credit must be submitted as part of the relevant Corporate Tax or Top-up Tax return and must be supported by:

- Evidence of pre-approval;
- Management declarations;
- Detailed expenditure breakdowns; and
- Audited financial statements.

Late or non-compliant claims may be rejected, and the authorities retain broad audit and enforcement powers.

Extensive record-keeping obligations also apply, including the maintenance of technical and financial documentation for up to seven years to substantiate qualifying activities and expenditure.

## Penalties, artificial separation and anti-abuse measures

The R&D Tax Credit regime is supported by robust enforcement provisions.

Where an R&D Tax Credit is unduly claimed or where the eligibility conditions cease to be met, the tax authorities are empowered to claw back the credit, treating the amount as payable tax and applying penalties in accordance with the UAE Tax Procedures Law. In addition, if within five years of claiming the credit a company ceases to be taxable – such as through liquidation, redomiciliation, or a move to a Free Zone or small business regime – any R&D Tax Credit already utilised may be recovered, and any unused credit will be forfeited. This five-year claw-back rule does not apply where the change results from a qualifying business restructuring carried out under the prescribed restructuring provisions.

The framework also contains robust anti-abuse measures. Where a qualifying entity is found to have engaged in artificial or abusive arrangements, including the artificial separation of business activities primarily to access higher R&D thresholds, the authorities may deny or claw back any R&D Tax Credit previously utilised or refunded. More broadly, arrangements lacking economic substance or a genuine R&D purpose may be counteracted, resulting in the forfeiture of unused credits and the recovery of amounts already claimed.

Any clawed-back R&D Tax Credit is treated as payable tax, with penalties applying under the UAE Tax Procedures Law. No other tax credits, special reliefs, tax losses or Pillar Two losses may be offset against the resulting liability, and any remaining R&D Tax Credits are permanently forfeited.

## Practical implications for businesses

The publication of the Cabinet and Ministerial Decisions marks an important development for businesses with innovation, technology, life sciences, industrial or other R&D-intensive activities in the UAE.

The R&D Tax Credit represents a significant incentive for innovation-driven businesses in the UAE, but it is accompanied by **substantial technical, procedural and compliance requirements**. Early assessment, careful project structuring and robust documentation will be critical to accessing and sustaining the benefit.

Entities intending to benefit from the R&D Tax Credit should carefully assess:

- whether their activities qualify as eligible R&D under the prescribed criteria;
- Their organisational structure, staffing levels and documentation readiness;
- The interaction of the R&D Tax Credit with Corporate Tax, Tax Groups and, where relevant, Top-up Tax obligations; and
- The governance processes required to obtain and maintain pre-approval and to manage ongoing compliance and audit readiness.

Early preparation will be essential to ensure that R&D projects, expenditure tracking and internal controls are aligned with the new framework from the outset of the applicable Tax Period.

## Next steps

We recommend that businesses potentially within scope of the R&D Tax Credit regime undertake a preliminary eligibility assessment and review their current and planned R&D activities against the newly published requirements.

Our team will continue to monitor developments and stands ready to assist with impact assessments, structuring considerations, pre-approval processes and ongoing compliance under the new R&D Tax Credit framework.

## Do you have any questions?



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