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# Exploring Corporate Tax Dynamics:
# The Case of the United Arab Emirates

ABDUL RAHMAN RAFIE
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Reviewed and approved* by the following:

Huilan Zhang
Assistant Professor of Accounting
Thesis Supervisor

Laura Rotunno
Associate Professor of English
Honors Adviser

Daniel Kerch
Assistant Teaching Professor, Accounting
Coordinator, Accounting Program
Faculty Reader

* Electronic approvals are on file

## Abstract

The introduction of a corporate tax system in The United Arab Emirates may have a lot of implications down the line; however, it is not the first tax introduced. The first being Value Added Tax (VAT). The thesis aims to explore the different aspects of the law, as well as measure the tax's impact on the economy, tax avoidance strategies and potential revenue it will bring in to the country. Finally, the paper explores the similarities and differences of the UAE corporate tax system with other developed country's tax systems, namely The United States.

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## Introduction

At the end of the year of 2022, The United Arab Emirates introduced a 9% corporate tax rate on all profits of companies that reside there. This thesis plans to explore The Federal Decree-Law. No. 47 of. 2022 in depth to further our understanding of the flat-rate tax system. That includes identifying what is taxed, tax deductions, and credits that are available for all the different companies of different identities. The corporate tax announcement was surprising considering that The United Arab Emirates has been viewed as a tax haven for foreign companies and investors residing in The United Arab Emirates.

The tax is applicable for companies whose fiscal year begins on June 1st, 2023, or later. Investors from all around the world buys property in the United Arab Emirates, specifically Dubai. People would also set up free zone companies and offshore bank accounts since The United Arab Emirates is the most advanced and known to be the most stable economy in Middle East.

Namely, this thesis aims to focus on the treatment of free zone companies, multinational companies, local corporations, and unincorporated partnership. Additionally, this thesis would like to explore how taxes are filed and how these numbers would be verified for truthfulness and accuracy. This paper also plans on studying the economic effects of incorporating this tax system, both on a macroeconomic and microeconomic level. Mainly, identifying whether the new tax rate has the recessionary effect that would be expected with a raise of taxes in any other developed country. Different potential tax avoidance strategies developed after understanding the new tax law will be discussed and analyzed for their efficiency and how likely they are to be applied. Finally, the thesis project aims to develops a model to predict the potential tax revenue in the UAE.

**Background**

There may be a multitude of reasons why the government of The United Arab Emirates implemented the system of which it is trying to add a layer of control to help rein in inflation as well as generating new revenue to fund the infrastructure required to better equip the country to handle the huge influx of expatriates looking for a new life.

The investments that the government of the United Arab Emirates has done throughout the country include housing projects, business services, schools, and other essential infrastructure required to lead a fully functional life to the mostly expatriate population.

They may also be trying to distance themselves from oil income since it is a relatively unstable in today's day and age of reducing carbon emissions and tough regulations of the producers of oil and gas.

Whilst exploring the different laws and regulations we are going to benchmark the results to a more developed taxation system, mainly the United States. We also want to analyze how the corporate tax system may affect the prices of different goods and services, and if the previously implemented VAT system may magnify its effect on the economy and could possibly cause a contraction in the short term.

This thesis is important since the law is not well known yet, and its effects haven't been studied. What I hope to accomplish is a pilot study into the different aspects of how the UAE's economy specifically would benefit from the implementation of this law and pave the way for more studies based on the UAE's financial systems.

**Resources Used**

The paper's main source for corporate tax information in the United Arab Emirates will be direct from the source, the official Federal Decree of Law No.47 of the year 2022. For comparison

purposes, the paper will be relying on The United States of America's tax code graciously supplied by the Internal Revenue Service (IRS) on their official website. By using primary sources, the paper ensures the accuracy of information that is analysed as well as its completeness. I also would like to note that legal entities conducting business are referred to as "Person/Persons" and all currencies discussed hereunder would be in the United Arab Emirates Dirham, abbreviated AED.

## Chapter 1: Types of Entities

This paper will discuss the different legal entities in the UAE, their taxable nature, and the criteria required to qualify for each form. It also aims to discuss the various advantages and disadvantages associated with each form. The thesis will also be comparing the different tax benefits of different entities to those in the United States.

### 1.1: Qualifying Free Zone vs. Regular Taxable Person

The decree establishes a difference between normal application of the tax and its application to a Qualifying Free Zone Person. For persons who are not part of a free zone, the tax rate on their income is structured as follows: The first AED 375,000 is exempt from taxation, while any income exceeding this threshold is subject to a flat tax rate of 9%. This tax, as per the decree, is payable to the Federal Tax Authority, referred to as 'the Authority' throughout the document.

Article 3 of the decree specifies that a “Qualifying Free Zone Person” is not subject to taxation on qualifying income. However, any income categorized as “non-qualifying” is subject to a flat rate of 9%.

In the decree, a “Free Zone Person” is defined as an entity or individual officially registered in a government-designated free zone area, conducting business within that area. Given that qualifying income within a free zone is tax-exempt, it becomes evident that conducting business within the designated free zone offers distinct advantages for tax optimization..

Whilst free zones exist in The United States, and are in fact similar to the ones that are in the UAE in terms of not paying income tariffs; however, they do not enjoy the advantage of a corporate tax break as their UAE counterparts receive.

### 1.2: Exempt Entities

Similar to the corporate tax laws in other countries, namely The United States, there are exempt persons who do not pay taxes on their income, or perhaps are tax advantaged. The main type of tax-exempt organisations in the US are charitable corporations; however, that doesn't appear to be the case in the UAE. There are nine exempt organisational structures in the UAE: government entities, government controlled entities, persons involved in extractive and non-extractive natural resource businesses, qualifying public entities, qualifying investment funds, both public and private pensions and social security funds, an entity owned by an exempt person, and any other person whom is deemed exempt by the Minister of Finance (the minister).

#### Government Entities

A government entity is defined as the culmination of the federal government, local government, ministries, government departments, government agencies, authorities and public institutions of the Federal and Local governments. A government controlled entity is any entity in which the government has whole share ownership in the entity, directly or indirectly. In Article 5 clause 2 of the decree, it is made clear that the tax code would be applicable in the case that both entities engage in business under a trade licence from an authority. These activities shall be treated as a separate independent business with their own financial statements separate of any other activities the government body may conduct. That is then followed up with the requirement of calculating and paying tax on their corporate income according to the applicable tax rate with the provisions of related party transactions applying to any transactions between the two entities.

Similarly, in the US, government entities are generally exempted from paying income taxes; however, they are liable to pay payroll taxes and social security taxes. The UAE does not

have the same payroll taxes or pension contribution, and thus the companies there are not liable to pay anything similar.

**Qualifying Public Pensions and Social Security Funds**

To qualify for the tax exemption, public pension and social security funds have to adhere to regulatory oversight and conform to any conditions set forth by the minister. For entities owned by exempt persons there are criteria that need to be established. Mainly, the pension fund has the same activities as the exempt person, or provide supporting activities. The funds should be set up to exclusively setup to hold assets or investment funds for the benefit of the exempt person.

Whilst pensions themselves are not taxable in the US, the income associated with them is taxed on an individual level.

**Extractive Businesses**

The United Arab Emirates is an oil dependent country and thus exploring the effect of corporate tax on the industry is one of this paper's main goal. According to the decree "Extractive Businesses" is defined as the extraction, and production of local natural resources beneficial to the country.

If the conditions to qualify for being an extractive business are met then the only tax imposed on the extractive business might not necessarily be a tax, but a royalty or fee to the local government. A supporting business activity to the extractive business is not taxed on the condition that the revenue of the subsidiary doesn't exceed five percent of the revenue of the parent company in a single tax period. Contractors, subcontractors, and any other business that contributes to the extractive activity doesn't enjoy the tax-exempt status unless they meet the criteria on their own. Any other subsidiary business or other business operation must meet the non-extractive business guidance under the decree and shall be taxed accordingly. If they do not meet the non-extractive

business criteria, they are considered taxable persons and separate financial statements should be kept as well as separate taxable income payable. Additionally, any expenditure between the two entities is to be allocated proportionally between them, unless local tax has already been paid as part of a local tax. All expenditures between the extractive businesses should be treated as related party transactions, unless they meet tax-exemption standards.

Extractive businesses are treated really different in the US than they are in the UAE. Mainly, that the US Federal Government taxes extractive businesses at the full corporate tax rate. Whilst, they provide some breaks; however, the breaks do not fully offset the corporate tax liability. The corporate tax is just a part of the many taxes imposed on extractive businesses. When taking oil and gas companies as an example, individual states impose their own taxes on the products they produce. States also impose royalty taxes on the use of the land.

**Qualifying Public Benefits**

Another form of entities that exist in the tax code is the Qualifying Public Entity. In essence, it is any entity that benefits the public like charities or non-profit organizations. Charities have the same treatment in the US in terms of federal taxation, they are tax-exempt.

**Qualifying Investment Funds**

Lastly in the tax exempt entities is the Qualifying Investment Funds. It perhaps may have been a surprise that investment funds are tax exempt; however, it might be that having tax free capital gains draws more money into the country than running the risk of losing potential capital of coming into the company. Unsurprisingly, the tax exempt status comes with conditions. First, the investment fund or the manager are subject to regulatory oversight by the competent authority in the United Arab Emirates or a foreign competent authority. A fund manager is defined as a person who provides brokerage or investment management services. Second, the funds' assets are

to be accessible to the public, or sold on a recognised stock exchange like the New York Stock Exchange, or the NASDAQ.

In the US, investment funds are structured as "pass-through" entities which means that investors would bear the load of the tax on their investment income. Since the UAE does not have personal taxes, that means that an investment fund would be a good option to pool investments without worrying about the income being taxed.

**1.3: Non-Resident Person**

A non-resident person only owes taxes on the taxable income that is derived from a permanent establishment. They are also liable to pay taxed on any taxable income that is attributable to State Sourced Income less the income from a permanent establishment. Lastly, the income derived from an established nexus in The State.

**Permanent Establishment**

If the person has a permanent establishment in the state. A permanent establishment is, in simple terms, when the person has a physical presence in the state. A permanent establishment is established when the non-resident person has a fixed place of regularly conducted businesses. The place does not need be owned by the non-resident person, but may be owned by a resident person conducting business on the non-resident person's behalf. This, however, is not applicable if the person regularly conducts business transaction on behalf of the non-resident person, or they perform their obligations without material modifications. A permanent establishment could be in any other form such as nexus established in the state.

It must be noted that the agent must be exclusive to the non-resident person and only conducts business with them, whose business wouldn't be viable without a resident person, except when the agent is considered "The Investment Manager".

### State Sourced Income

Income is considered State Sourced when it is derived from a resident person, a permanent establishment of a non-resident person, or if the activity is generated in the State. The income can include, without limitation and subject to the minister's decision: The sale of goods or services that are used in the state, partial or complete fulfilment of a contract to the extent that it has been executed in the state, any income produced by temporary or fixed assets in The State, Income from disposal of shares or capital assets of a resident person, income generated from intellectual property used in The State by right of use or ownership, interest Income if the loan is backed by a property physically located in The State, the borrower is a resident person, or the borrower is a government entity, Insurance premiums are considered state sourced income if the insured asset is in The State, the person is a resident person, or the insured activity is conducted in The State.

### Nexus in The United Arab Emirates

In the context of having nexus, a local branch of a person is treated as one and the same as the taxable person.

## 1.4: Resident Person

A resident person is any person who does not qualify to be a non-resident person. A resident person, in the context of entities rather than a single person, are taxed on all of their income whether it is gained in The State or outside. A natural person is only taxed on income that is derived from the State, and income derived from outside The State that is proportionally taxed to the amount of time the business activity has been conducted locally.

### 1.5: The Investment Manager Exemption

The Investment Manager Exemption allows a non-resident person's agent to act on behalf of the person in a regular and dependent fashion if the agent is an investment manager and satisfies all the following conditions:

- The investment manager provides investment management and brokerage services.
- The investment manager is subject to regulatory oversight.
- Transactions executed are income-generating activities for the investment manager.
- The investment manager is independent of the transactions that are occurring as well as does not represent the non-resident person in the State in any other taxable business activity.

In the United States investment managers aren't directly taxed; however, the income generated to the stakeholders is taxed. For example, whilst hedge funds in by themselves aren't directly taxed, the income that the contributors receive is taxed under capital gains and income.

### 1.6: Defining Transactions

Transactions are defined as any of the following: Public exchange transactions that include anything similar to stocks, derivatives, commodities, or bonds, foreign Exchange trading, as well as the fixing of funds for interest, any other transactions defined and permitted for the investment manager to perform as outlined by the State.

### 1.7: Unincorporated Partnerships

As defined in the decree, an unincorporated partnership is a business relationship established by a contract and is not limited liability. Examples of such entities are law firms, accounting firms, and engineering firms. Unincorporated partnerships can apply to be treated as a single taxable person, otherwise the partners will be treated as individual taxable persons.

**Default Treatment of Partnerships**

By default, the partners will individually be held liable to any contract the partnership is a part of. The partners are also considered to conduct the business of the partnership, hold its assets proportional to their share, and have the same purpose as the partnership. Partners' taxable income should take into account any expenditure they may have incurred to conduct business of the firm, including interest paid on capital contributions to the firm's capital account as well as the interest paid to the partner's capital account, and any foreign tax incurred by the partnership shall be proportionally distributed to the partners as foreign tax credits.

The individual treatment is the same as that in the US, whereby profits and losses are "passed through" to the individual partners; however, in the US, partners are liable for full employment taxes on ordinary business income allocated to the partner. Additionally, partners are liable for capital gains when selling their stake in the partnership at a profit.

**Foreign Partnerships**

In the case of foreign partnerships, they are treated as unincorporated partnerships if they satisfy both of the requirements of not being subject to foreign tax, and the partners are each individually taxed on their distributive share of the foreign partnership as income is generated.

**Election to be treated as a single taxable person**

All of the above partnership tax law doesn't apply in the case that the partnership elects to be treated as a taxable person and the following is applied as of the beginning of the tax period when the application was approved: Partners will remain responsible for the corporate tax owed by the partnership for the period for which they were partners, and a single partner is to be appointed as in-charge of representing the firm on tax matters.

Limited liability companies, in the US, have the ability to elect to be treated as a corporation; however, that option does not seem to be available to partnerships. That is indeed a good thing considering that corporations in the US are generally considered to be "double-taxed" in the US, in essence, income taxed at the corporate level and dividends taxed at the personal level. Thus, it would be an inefficient option for partnerships to elect to be treated as a single corporation.

**1.8: Family Foundations**

Family Foundations are defined to be foundations, trusts, or similar entities that meet criteria set by the authority. Those include: The establishment of the foundation for the benefit of natural persons, its principal activity is receiving, holding, an disbursing of assets and funds for saving and investments, it does not conduct any other business activity that has been done with one of its stakeholders, it isn't set up for the sole purpose of tax avoidance.

In contrast, trusts in the US are taxed on any income they produce. Often they are taxed more aggressively than individual taxpayers. Therefore, the UAE seems to not treat them as entities but as a natural person.

**1.9: Free Zone Persons**

The final person that will be discussed in this paper is the free zone person. For tax purposes, there will exist a qualifying free zone person and a free zone person. To be a qualifying free zone person you first must be a free zone person, then you have to meet all the conditions highlighted:

- Maintain adequate substance in the State.
- Derives Qualifying income
- Has not elected to be taxed.
- Complies with the Arm's Length Principle and Transfer Pricing Documentation later discussed in the decree.

In case a free zone person fails to meet the conditions, they will forfeit the status as of the start of the tax period. The tax advantage rate highlighted in Article 2 Clause 3 shall be deemed complete at the end of the stipulated incentive period; however, no one period shall exceed 50 years.

**Qualifying Income**

Qualifying income for free zone persons is mainly income generated from trade with other free-zone persons, the use of intellectual property, income from non-free zone persons in certain activities, and other qualifying activities that contribute to the economy of the UAE.

**Summary**

Now that the paper has discussed all the different types of entities recognised by The United Arab Emirates tax code in Chapter 1, it has become clear that the entity classification is different than those in The United States. In the US there are six main types of businesses as listed on the IRS' website: Sole proprietorship, partnerships, international businesses, C Corporations, S Corporations, limited liability company (LLCs).

# Chapter 2: Taxable Income Calculation

This section provides an in-depth discussion on the methodology used for calculating taxable income. Unlike in The United States where a separate tax statements are made and reconciled with book income, in the United Arab Emirates it is expected that taxable companies are to keep financial statements in accordance to applicable standards in the country. In the UAE IFRS is most commonly used and relied upon for financial statements.

## 2.1: Basics of Taxable Income

Taxable income is net profit calculated for the period with the following adjustments taken into consideration:

- Unrealised gains or losses if the taxable person is on an accrual basis and:
  - The assets or liabilities are subject to fair value or impairment.
  - The assts and liabilities are held in capital accounts, whilst the unrealised gains or losses are held in a separate revenue account:
    - Assets held in capital accounts are not depreciable and not fixed assets part of the principal operation of the person.
    - Liabilities held on account are non-current liabilities, or those whose expenditures are not deductible.
    - Unrealised gain or loss includes foreign currency translation gains/losses.
- Exempt income
- Reliefs
- Deductions
- Related Party Transactions
- Tax Loss Relief

- Any special reliefs for qualifying business activities.

It is also assumed that companies are on an accrual basis unless the person satisfies the conditions for a cash basis as set forth by the minister. Additionally, adjustments to accounting standards can be made and supersede them for the use in calculating the taxable income of a person. A person can apply to convert to an accrual basis, and shall be presumed on that basis since the beginning of the current tax period.

If a taxable resident person doesn't exceed a predetermined revenue threshold in the current period and a number of previous periods, then they are considered to not have any taxable income for the current period. They also will not qualify for any deductions, tax loss relief, exempt income, or any other tax advantages highlighted in the tax code. Compliance will be audited by the Authority on an as needed basis.

**2.2: Taxable Income Exemptions**

Like any other tax code, there are certain sources of income that are considered exempt from their profits being taxed:

- Any dividends received from a taxable resident person, as well as from a foreign entity subject to the participation exemption and foreign permanent establishment exemptions.
- Participation Exemption applies when a share of at least 5% is owned with the full proportional rights to assets and profits, and is considered a participant when the following conditions are met:
    - Has been, or intends to hold the shares for a period of twelve continuous months.
    - The participation is taxable in the UAE or any other country where the tax rate is no less than the UAE tax rate of 9%.

    - The main reason for the acquisition is for the holding of share and interests in the company.
    - The income derived is mainly composed of the income of the entity owned.
    - A participation in a qualifying free zone person satisfies this.
- A maximum of 50% of assets of the acquisitioned company that do not qualify for tax exemptions.
- If all the above exemptions are satisfied then dividends and profit distributions from a foreign non-resident person, gains or losses on the disposition of assets after the initial 12 months period, foreign exchange and impairment gain/losses are not included in taxable income.
- This exemption does not apply to income from a participating interest if the participation can and or has claimed a deduction on distributions in the tax jurisdiction. If the participant has claimed a deduction from impairment loss prior to meeting the 12 months threshold. Finally, the taxable person or any related party cannot claim the exemption if an impairment has been claimed on a loan receivable from the participation (the company whose shares have been acquired); however, if the impairment has been reversed in a later period, then the exemption stands.
- This exemption doesn't apply to realised losses on liquidation.
- If the participation doesn't meet the criteria described above, then the exemption shall not apply for a period of two years.
- Income previously exempted would be taxed in the tax period that the 12 months hasn't been completed or the ownership has dropped below 5%.
- Minister may prescribe a fixed currency amount in place of ownership percentage.

- Foreign Permanent Establishment Exemption applies to the portion of income or losses realised on foreign soil, and shall be treated as separate person and taxed at a rate equal or higher than the UAE tax rate. It does need to be noted that resident persons in this case won't be able to make use of foreign tax credits.
- Final exemption applies to non-resident persons operating aircraft and ships with a primary activity in international transportation of goods, passengers, or anything of the like. Leasing of equipment is also covered in this exemption.

**2.3: Reliefs**

Next, I will be discussing the three different of reliefs available for persons:

1. Transfers within a qualifying a group.
2. Business restructuring relief.
3. Tax loss relief

**Reliefs For Transfers Within a Qualifying Group**

In this context, a qualifying group refers to a group of two or more taxable persons treated as a single person for tax purposes. To meet the criteria for qualification, the following conditions must all be satisfied:

- The entities whether resident or non-resident must have permanent establishment in the State.
- One of the entities in the group, or a third party, must own at least 75% stake in the other entities.
- None of the persons are exempt persons, qualifying free zone persons, they follow similar fiscal year ends and the same accounting standards.

In transfers within a qualifying a group, gains/losses shouldn't be factored into the determination of taxable income. Consequently, when any assets or liabilities are transferred within the group, they should only be sold at net book value as well as recorded at the net book value. This principle does not apply when the asset or liability is transferred outside the qualifying group, or when one of the members ceases being part of the qualifying group within 2 years of the transfer. If any of the conditions were breached within the 2-year period, the transaction is deemed to have taken place at market value and added to taxable income.

**Business Restructuring Relief**

The second type of relief is named "Business Restructuring Relief", which in essence allows for the complete transfer of ownership of entities to a single person with the need to asses taxes on the gains/losses incurred in the transaction. All assets and liabilities are to be transferred at net book value with no gains/losses. Additionally, all tax loss provisions will be carried forward by the acquirer to the extent of the loss was incurred by the unit sold. The relief is only applicable when certain conditions are met:

- The transfer doesn't violate any local laws and meets all the conditions of the State
- The taxable resident or non-resident persons have permanent establishment in the State.
- None of the persons involved in the transaction are exempt persons, or qualifying free zone persons.
- The taxable persons follow the same fiscal year schedule as well as the same accounting standards.
- The transfer is done for valid and realistic economic and non-fiscal reasons.

The relief also applies when shares or ownership interests are transferred between independent parties none of whom are to be partners in an unincorporated partnership. The relief, however,

does not apply when within 2 years of the date of the transfer the sold unit is sold off or transferred outside the qualifying group. In this case, the transfer is assumed to have taken at market value.

**Tax Loss Relief**

The last form of relief is a Tax Loss Relief. Which is similar to the US tax system where losses can be carried forward to offset taxable income in future periods. Any tax loss relief cannot exceed 75% of taxable income for the period when it is used. Tax loss is accounted for on a FIFO basis. A taxable person cannot claim tax loss relief for any losses incurred before the commencement of the corporate tax law, before a person opted to or became a taxable person, or losses incurred from exempt assets.

**Tax Credits**

Tax credits are incentives provided by the government to stimulate business by increasing disposable income. It conveniently is also another way to reduce a company's tax bill. Tax credits usually directly reduce tax payable rather than reducing taxable income. Thus, their effect has a one-to-one ratio to corporate tax payable.

Tax incentives are given with certain conditions, these conditions can include relocating to a different geographical area, attracting start-ups businesses, bringing in economic activity, or offsetting carbon emissions. The UAE however has not announced any such incentives and have limited it to reliefs discussed in Chapter 13 of this paper. Thus, making any tax savings for having certain criteria minimal at best.

**2.4: Deductions**

When it comes to deductions, there exists two types in the UAE: Interest Expenditure, and Entertainment Expenditure. As one would expect, deductions are only allowed on expenditures incurred related to the taxable person's business activity or revenue-generating activities.

Therefore, any expenditure not for business purposes or for the purposes of procuring exempt income, and losses that aren't related to the business are not deductible from taxable income. If it is unclear whether an expense was business related or not, deduction is made to the extent that the expense was a business expense or can be reasonably estimated.

**Interest Deductions**

Interest expense is deductible in the period in which it is incurred; however, it cannot exceed 30% of the taxable persons EBITDA adjusted with the exclusions specified in the tax code. If there is any net interest expense that goes past the 30% threshold specified then it is allowed to be carried over the following 10 subsequent years under the FIFO model. No interest deduction shall be taken for any interest directly or indirectly paid to a related party. Indirect interest payments to a related party include interest paid to fund dividend distributions to related parties, redemption, or any other capital equity transaction with the related party. If the taxable person can prove that the loan was not acquired to take advantage of the Corporate Tax system, then the related party clause is not applicable. That is proven when the related party is subject to at least the same tax rate that is used in the UAE. Banks, insurance providers, and natural persons conducting business cannot take advantage of this deduction.

**Entertainment Deductions**

Taxable persons are allowed to deduct 50% of entertainment expenditures incurred. These include meals, accommodation, transportation, admission fees, facilities, and equipment used in connection with business entertainment and taxable revenue generating functions.

**Disallowed deductions**

No deductions are allowed for donations to a non-qualifying public benefit entity. Fines and penalties, unless they are awarded compensation, bribes or illicit payments, dividends or

distributions paid to an owner of a taxable person, amounts withdrawn by a taxable partner in an unincorporated partnership, corporate tax paid, recoverable VAT, tax that is imposed internationally.

**2.5: Related Parties**

This section will be discussing the effects of related party transactions and connected persons. A related party will be considered for this paper to mean any one of the following:

- Two or more natural persons within 4 degrees of kinship, including adoption or guardianship.
- A natural person and an entity:
  - When the person and his/its related parties own 50% or more in another entity.
- Two or more entities:
  - When an person and his/its related parties own or control more than 50% in another entity.
- A person and its permanent establishment, foreign or domestic.
- Partners in an unincorporated partnership.
- Stakeholders in trust funds and its related parties.

Control is defined as the ability of a person to influence or enforce decisions relating to the course of business, including:

- The ability to exercise 50% or more of another person or influence the composition of the board of directors.

The law follows the commonly known arm length principle in determining taxable income between related parties. The related parties are also responsible for reaching an agreement that reflects a similar deal that would have been made if they were not related and that reflects the

market. The arm length principle would be tested under using a combination of common transfer pricing methods. The main factors to be considered when making a decision on choice of transfer pricing method are:

- The contractual terms of the agreement.
- The characteristics of the agreement.
- The economic circumstances of the agreement.
- The functions performed, assets employed, and risks assumed by the related parties entering into the agreement.
- And the business strategies employed by related parties entering into the agreement.

When and if the related party transactions are audited, the Authority will use the transfer pricing method employed by the parties involved in the transactions. It is expected that the results of the transfer pricing method would fall within the established range of arm's length principle. If that is not the case then the Authority would adjust taxable income for both related parties to reflect market conditions of the transaction based on data made available. If a foreign authority makes adjustments to the transaction to meet the arm's length standards, a corresponding adjustment should be made to taxable income via an application to the Authority.

A payment or benefit from a taxable person to a connected person is deductible if it reflects market conditions and to the extent it correlates with the market value of the expenditure and is incurred completely in favour of the business' course of business. A connected person may be the owner or a director or officer of the taxable person. Related parties to the aforementioned positions are also connected persons. Transfer pricing and arm's length principle applies when determining market value of goods and services rendered. A taxable person whose shares are traded on a

recognised stock exchange or that is subject to regulatory oversight cannot take advantage of the deduction.

**2.6: Tax Loss Provisions**

Next, the paper will discuss tax loss provisions. Having already covered tax loss relief in **Reliefs**, the focus will now shift to the transfer of tax loss. Its transfer is permissible if:

- Both taxable persons involved in the transaction are juridical resident persons.
- Taxable persons involved must have 75% ownership or a third party owns 75% or more of both entities involved. Additionally, they must have at least 50% ownership from the beginning of the tax period when the tax loss was incurred to the end of the period when the offset was used.
- None of the persons are exempt, nor qualifying free zone persons.
- The persons follow the same accounting standards and have the same fiscal year period.

When the tax loss is transferred it will reduce the taxable income for the relevant period, and the entity who sent the tax loss shall reduce their tax loss by the amount transferred. The deduction cannot exceed the tax loss relief limit established.

Limitations of tax loss carry forward include the fact that the entities must conduct similar business activities following a 50% change in ownership. The factors that determine similarity of business activities exclude publicly traded companies and are:

- The taxable person uses the same assets as the ones used before change in ownership.
- The person hasn’t made any significant core changes to its operations since ownership change.
- Where there have been any changes in the company’s identity prior to its selling.

## Chapter 3: Tax Groups & Settlement of Corporate Tax Dues

### 3.1: Tax Groups

The paper has previously discussed the advantages and various qualities of qualifying groups. Moving forward, it will delve into a detailed examination of the requirements and the benefits associated with tax groups. By definition a tax group is when a parent company applies to have its subsidiaries combined, treating them as a single person solely for tax purposes. In this arrangement, the entities would be combined, with the parent assuming responsbility for all taxes linked to the group. Furthermore, any tax losses resulting from the combination or addition of entities are carried forward in accordance with the law.: The approval of such an application by the Authority is contingent upon meeting all the following conditions:

- The persons are juridical persons
- The parent company owns at least 95% of all of the share capital, voting rights, rights to assets, and profits.
- Neither parent nor subsidiaries are exempt companies, including Qualifying Free Zone Persons.
    - Government entities are exempt from this rule.
- All entities in the group must follow the same accounting standards as well as the same fiscal year ending.

When the application to be a tax group is approved, the status is deemed active since the beginning of the tax period it has been approved. That is also the case if any of the following conditions to dissolve the tax group are satisfied. In case any party would like to dissolve the tax group, they will require approval from the Authority, they do not meet the conditions to be a tax group, or the parent files an application to be replaced. If the latter is chosen, the new parent company shall

comply with the rules of tax groups or the old parent company would have ceased to exist and its legal successor takes over. The Authority may also dissolve a tax group as deemed fit. If the group is indeed dissolved, any group tax losses remain in the group. If the group is completely dissolved, then tax losses remain with the parent, if the parent dissolves then the tax loss benefit would be foregone.

Because the entities in the tax group are treated as a single taxable person, the parent company shall keep consolidated financial statements according to IFRS.

**3.2: Settlement of Dues**

Next, this section will be discussing the calculation and settlement of corporate tax. As previously mentioned, all tax transactions are to be in AED, otherwise it would have to be converted in order to pay dues. The tax bill is not settled right away with cash, but in the order of:

1. The person's Withholding Tax Credit is used:
    - The credits are gained when a non-resident person with no permanent establishment derives state sourced income.
    - The credit is applied to a maximum of the taxable income, the remaining amount is refunded.
        - The person has to submit an application:
            - The authority has to be satisfied that the person has over-paid taxes, or have remaining withholding tax credit
2. The person's Foreign Tax Credit is used:
    - A person is responsible for carrying records. Additionally, none of the credits can be carried forward or back.
3. Any reliefs are applied.

4. Payment is made in accordance to Authority procedure within nine months of the end of the tax period.

**3.3: General Closing Notes from Decree**

The law includes general anti-abuse rules to stop people from taking advantage of the various deductions and reliefs to reduce corporate tax payable. Whenever deemed fit, the transactions would be examined by the authority to audit their validity.

Companies who meet the requirements and thresholds to be taxed as well as those whom are exempt from being taxed should register with the Authority. Similarly persons may deregister from tax if they have completely paid off due taxes and any administrative penalties applied.

A tax return must be filed by a person, parent company, partner in unincorporated partnership no later than 9 months after the end of the tax period. The return includes:

- The tax period
- Name, Address, Tax Registration Number
- Date of submission
- Accounting basis of financial statements
- Taxable income
- Tax loss relief
- Tax loss transferred
- Available tax credits
- Corporate Tax Payable for the period

Additionally, persons are required to provide supporting documentation to the Authority when requested by them and in the form requested. The tax return is to be submitted in the form deemed fit.

As of the writing of this paper, companies in the United Arab Emirates aren't required to maintain audited financial statements nor financial statements in general; however, that might change by decision from the minister.

All persons, exempt or otherwise, are required to keep records supporting tax returns, including transfer pricing documentation, for a period of 7 years following the end of the tax period. Tax periods can be modified by application to the Authority.

Finally, the closing financial statements for the last year that isn't taxable is considered the opening statements.

## Chapter 4: Tax Avoidance

One of the main goals of this paper is to compare tax avoidance strategies developed for international use, namely The United States, and analyse their applicability in The United Arab Emirates. With the knowledge of the tax law in the previous three chapters, the research lens can now be focused on said strategies.

### 4.1: Avoidance vs. Evasion

It is important to note that a difference does exist between tax evasion and tax avoidance. Evasion includes the concealment of income or forging financial statements solely to avoid the payment of due taxes or falsely decreasing the tax burden (Onu, Oats, Kirchler, & Hartmann, 2019). In some cases, evasion may have very severe penalties including jail time. An example of that is the case of Dr. Sabean getting two years jail time in federal prison from illegally withholding $900,00 in federal taxes over a 4-year period starting in 2008 (Murphy, 2017). In less extreme cases the alleged offender would at least pay back the taxes they owed as in the case of Jeanine Gayle Stenoien where they were ordered to pay back $1.5 million of sales tax after pleading guilty to grand theft (Former restaurant owner agrees to tax-evasion punishment, 2007).

Tax avoidance on the other hand is merely organising various capital transactions such as charitable contributions to reduce taxable income or increase expenditures, and thus temporarily offset taxes due in the current tax period (Onu, Oats, Kirchler, & Hartmann, 2019). It can also be defined as the “use of the tax law to get a tax advantage that Parliament never intended” as per the UK tax Authority (Degl’Innocenti & Rablen, 2017).

It can be concluded that both avoidance and evasion yield the same result: decrease in taxes paid. However, an important distinction to make between the two based on the above is the fact that tax avoidance is legal, whereas tax evasion is illegal (Onu, Oats, Kirchler, & Hartmann, 2019).

### 4.2: Common Tax Evasion Strategies

With the fact that tax evasion is illegal, the paper will now explore the common tax evasion strategies that firms used over time. The paper will also explore the cost of the consequences and if the actions were worth it. It is important to note that even though tax evasions strategies were explored, that does not necessarily imply that those are the most recent strategies used. In the UAE because of the digitalization of the process of the tax return discussed in Chapter 3:, research shows that tax evasion is less likely to happen (Uyar, Nimer, Kuzey, Shahbaz, & Schneider, 2021).

#### Tax Havens

One strategy involves the moving of capital or funds to an account in a low tax and high banking secrecy country. Whilst the money transferred may have already been taxed, things like interest payments or investment returns may remain unreported and thus not taxed. Companies, or persons, can do that through a couple of steps. First of which is setting up a foreign tax haven account through shell companies or a trust. Then, the shell companies will invoice the non-haven entity for what is usually consulting services. The shell company may also be invoiced to add a layer of secrecy and make it more difficult to link to tax evasion. Finally, the money is deposited into the intended bank account in the tax haven (Lukas Menkhoff & Miethe, 2019).

That is significant for corporations that are based in countries that tax worldwide income such as the US and certain applications in the UAE, since tax evasion activities are tried as corruption cases and are expected to be recovered in full with the payment of additional penalties in certain cases.

This method of tax evasion, though still technically possible, is much harder to pull off. That is because tax havens have established treaties with non-tax havens countries. Taking Jersey for example, a small British dependency of the coast of France, has treaties with 32 non tax haven

countries. The treaties are information exchange documents whereby the tax haven country has to report information if it is relevant to a tax evasion and the information is requested in great detail (Lukas Menkhoff & Miethe, 2019).

It is important to further emphasize that tax evasion is highly illegal, and as shown in 4.1: may carry sever penalties. The focus of the following section is going to be strictly legal tax avoidance strategies that were developed through the analysis of the decree and utilizing the deductions and reliefs in an advantageous way.

### 4.3: Common Tax Avoidance Strategies

#### Profit-Sharing

One of the main ways American Multinationals avoid taxes is by profit shifting. Whereby the multinationals companies seem to “store” their profits outside of highly taxed countries, including The United States and Europe, in favour of “tax-haven” countries that ideally have a tax rate of less than 10%. They then finance their onshore activities mainly with debt, which yields an additional tax advantage (Schwarz, 2009).

Apple Group, for example, is made up of 3 companies: Apple Inc., Apple Sales International, and Apple Operations Europe. All of whom are controlled by Apple, and the latter two being based in Ireland. All the sales made in Asia, Africa, and Europe were attributed to the Irish subsidiary. That provided tax benefits where Apple would be taxed less than if it were operating in each separate jurisdiction. The tax benefit was contested by the European Union; however, it was found that the companies set up in Ireland were not eligible to be taxed anywhere else. Thus, Apple got away with getting taxed at a lower tax rate legally (Maria, 2018).

It wouldn’t be practical for companies based in The United Arab Emirates to apply this strategy since there are not many countries with lower tax corporate tax rates. Even in the case that

the company sets up a subsidiary in a lower tax jurisdiction, the costs of establishing the branch would far outweigh any tax benefits.

Additionally, we have to consider the condition set forth in Chapter 2 Section 2, and relates to the ownership of more than 5% of foreign entities. The condition for the domestic company's share of the foreign business is that the tax rate must be at least equivalent to the 9% tax rate to not be taxed locally in The United Arab Emirates.

**Accelerated Depreciation**

Accelerated depreciation is another common tax avoidance strategy that benefits both the economy as a whole as well as the corporate tax payable of the company. In essence, accelerated depreciation allows companies to deduct capital investments from taxable income more quickly than regular depreciation entries. For example, in The United States there is Section 179 of the tax code that allowed for certain assets to be depreciated fully in the first year of being placed into service, up to a certain limit of course.

In addition to Section 179, non-qualifying depreciable assets are divided into buckets that can be depreciated up to 20 years as specified by the Internal Revenue Service MACRS. MACRS stands for The Modified Accelerated Accelerations Recovery System where assets are depreciated under schedules designed by the IRS which would eventually match the book value of the asset. The limits of depreciation are revised periodically in the MACRS table.

Companies take advantage of the accelerated depreciation to reduce their tax liability in their early years by reinvesting their profits in fixed assets. This not only improves and grows their businesses, but also has proven to stimulate the economy.

Whilst depreciation is deductible in The United Arab Emirates, there isn't an accelerated depreciation model established to allow tax savings for corporations. The non-existence of

depreciation schedules means that companies do not have to maintain separate depreciation schedules for assets; however, it also means that companies are more restricted in deciding whether to favour their EBTIDA or to reduce their tax liability.

In order to mimic the effects of MACRS, companies in the UAE may opt to use double declining balance to depreciate their assets over a shorter period of time. Whilst, this strategy may help in reducing the tax liability in the short-term; however, various stakeholders may not agree with the strategy since it reduces net income. The reduction in net income may cause shareholders to undervalue the companies, or banks reducing lines of credits or having more stringent requirements for the company to access credit. This added barrier may cause the company's bottom line to further drop.

Thus, with all things considered it may or may not be the best strategy for UAE based companies to use depreciation as a big part of their tax avoidance strategy depending on their needs. For example, a company with already fully depreciated assets may not benefit as much as a company that has recently acquired new equipment and can reduce their corporate income tax liability.

## 4.4: Proposed Strategies

### Depreciation Strategy

With all the facts from 4.3: considered, it is apparent that all in all it is really difficult to reduce tax liability using common tax avoidance strategies. The only possible way as of the date of writing this paper to reduce corporate tax liability is to use the double declining balance of depreciation when purchasing new equipment and utilizing the interest deduction discussed in 2.4: or adjusting the depreciation method of recently purchased equipment.

Because the interest deduction takes into consideration the EBTIDA, that means that the higher value depreciation method proposed will not have an effect on the deduction amount that the interest paid on capital equipment. This is important since the main goal of choosing a higher depreciation method is to lower net income as much as possible. The goal is to get net income as close to AED 375,000 as possible in order to minimize tax liability.

It can be argued that this method of tax avoidance is actually profitable for the company in the long run. Take the case when interest rates are lower than the 9% tax rate. Then companies would be better off investing in the new equipment if it aligns with their long-term strategy goals than to pay the tax. They would not only benefit from lower income because of the depreciation but also from the interest deduction and the return the new equipment provides.

It may seem counter-intuitive that a company may intentionally choose to reduce their net income; however, research has shown that the stock price of a company who has a consistent and predictable tax liability has benefitted from a rise in stock price (Blaufus, Möhlmann, & Schwäbe, 2019). Therefore, it may be more beneficial in the long run to take a temporary hit to the bottom line than to pay tax on that portion of income.

Companies with assets that are at their residual value will not be able to take advantage of the additional depreciation expenditure.

**Free Zone Strategy**

Another way of reducing tax liability is setting up an entity as a free zone entity that meets the requirements set forth in 1.9: and utilizing the tax-free period when the entity is considered a free zone entity with qualifying income. The entity would be restricted in the business activities they conduct according to the "Qualifying Income" section of the paper and by the limited tax-free timeframe that is applicable to free zone companies.

There is nothing that business owners looking to avoid taxes can do regarding the restriction of business activities. Additionally, when the tax-free period ends it would not be possible for the owner of the company to use the “Interest Deductions” in section 2.4: to buy the equipment with a loan from a new company they set up. That is because the transactions must adhere to the rules governing related party transactions found in 2.5:. Therefore, the use of the “Free-Zone Strategy” is a one-time occurrence and cannot be replicated. It may be more beneficial that way since companies need to expand, and the limitation of activities is a limiting factor to that.

**Summary**

This difficulty in the reduction of tax liabilities however may not always be case, especially since the corporate tax system is very recently established and has not been implemented fully as of the writing of this paper. Which leads me to expect that during a regular full economic cycle, the government of The UAE may incentivise the economy with the use of tax incentives, leading to more liberal tax policies and breaks. In fact, research shows that there exists a strong positive correlation between the foreign direct investment in flows and the “Free Zone Strategy” discussed in section 4.4: (Nassira, Leila, Tayeb, & Lounici, 2023). That directly implies that the tax code for the free zones was deliberately designed to provide the tax break, and thus it would be improbable that the government repeals the tax benefit that it provides these types of businesses.

New policies that could be used to stimulate the economy to achieve certain goals include deductions like the Standard Mileage Rate or the Clean Vehicle Credits that are incorporated by the IRS (Internal Revenue Service, n.d.). For example, if the Government of The UAE would apply the clean vehicle credit, then that would incentivise businesses to purchase clean energy vehicles that go along with their mission to reduce emission and use more sustainable and cleaner energy.

Finally, the tax avoidance strategies that were proposed both included some sort of growth. The depreciation and interest method encourages established companies to reinvest some of their profits to further invest in the purchase of equipment. It even incentivises companies to borrow money to invest in the local economy. That is consistent with the general direction the country has been headed in for the last couple of years: incentivizing foreign direct investment and attracting capital to the country by creating a business-friendly environment (Nassira, Leila, Tayeb, & Lounici, 2023).

## Chapter 5: Macroeconomic Effects of Corporate Tax

Taxes can have several different effects other than providing an income stream for the government. Taxes are proven to indicate an inverse correlation between the average tax rate and average savings rates. The model has also been proven to be consistent across different countries (Alfò, Carbonari, & Trovato, 2022).

### 5.1: The Effect of the 9%

The paper has discussed profit-shifting as a tax avoidance strategy in the previous part. Having the 9% tax rate is a double-edged sword that has to be analysed from two different perspectives. The first being that The UAE has previously never had a corporate tax system, and it has just recently incorporated the VAT system at a 5% rate. Before the implementation of the VAT system, local auditors from various firms were interviewed and that it would be absorbed by the economy within the year (Saderuddin & Barghathi, 2018). Evidence from after the implementation of the VAT from the Abu Dhabi Stock Exchange (ADX) indicated that investors were not worried about its effect on the economy (Gopakumar, Kaur, Ramiah, & Reddy, 2022). Thus, it will be difficult to assess whether the tax will slow the growth of the economy or if the tax would be absorbed.

On the other hand, the tax rate that has been implemented is still below the previously discussed threshold of 10% which is considered ideal for companies that engage in profit shifting (Schwarz, 2009). Meaning that capital may still flow into The UAE without much hesitation by investors, and the tax is just considered as an added fee to avoid higher taxes elsewhere.

## 5.2: Effect on Tax Revenue

### Methodology and Data Collection

As was mentioned previously, the UAE's imposition of a Value Added had not contracted the economy in 2018 and the years following it. Regardless of the effect the corporate tax has on the economy, it would be informational to begin by roughly estimating the tax revenue that may flow into the government from said taxes.

Data covering nearly 50 years was collected for tax revenues, GDP, unemployment rate, interest rates, and inflation rate from reputable public sources such as Macrotrend, Statista, World Bank, and International Monetary Fund. These sources specialize in providing reliable statistics, indices, and metrics. Additionally, data for control variables were collected from publicly published government reports. Due to limited availability of control variables, I was only able to gather data for a total of 23 years for all variables. A total of twenty three observations was ultimately obtained to aide in the construction of the model. Due to the limited data from the implementation of the new tax law in the UAE, as well as the correlation between the US and UAE economies, I will utilize the US tax data to construct a tax revenue model.

### Correlation Between US Tax Revenue and Macroeconomic Factors

To estimate tax revenue, research indicates that tax revenue is correlated with GDP, unemployment, inflation rate, and interest rates (Andrejovská, 2021; Seip, 2019). Moreover, research indicates that there exists a correlation between tax revenue, government expenditure, and governance in general (Nguyen, 2022; Lompo, 2024; Ahmad, Ali, & Iram, 2011). Drawing from the existing literature, the initial step involves establishing the correlation between US tax revenue and the five macroeconomic factors.

**Controls**

Because the two economies are diverse and can vary in a lot of factors, it is crucial to have in place control variables that will help in normalizing the relationship. In this case I will be using political stability, government effectiveness, regulatory quality, rule of law, and foreign direct investment as a % of the GDP. All of which are descriptors of governance, and have established indices and metrics at The World Bank. Additionally, from Table 1, it can be observed that whilst these control variables may not have a strong direct correlation with tax revenue; however, they still do have strong correlations with the main macroeconomic facts that directly affect the predicted tax revenue estimate.

| Variable | Tax Revenue | GDP | Unemployment Rate | Interest Rates | Inflation Rate | Political Stability | Government Effectiveness | Regulatory Quality | Rule of Law | FDI as % of GDP |
|---|---|---|---|---|---|---|---|---|---|---|
| Tax Revenue | 1 | | | | | | | | | |
| GDP | 0.9592 | 1 | | | | | | | | |
| Unemployment Rate | -0.3506 | -0.1566 | 1 | | | | | | | |
| Interest Rates | -0.5048 | -0.6128 | -0.3097 | 1 | | | | | | |
| Inflation Rate | 0.4126 | 0.3286 | -0.2981 | -0.2995 | 1 | | | | | |
| Political Stability | -0.8175 | -0.8594 | -0.0864 | 0.6644 | -0.2923 | 1 | | | | |
| Government Effectiveness | -0.2962 | -0.3528 | 0.1296 | 0.4800 | -0.4542 | 0.3816 | 1 | | | |
| Regulatory Quality | -0.3860 | -0.4941 | -0.4587 | 0.4900 | 0.2219 | 0.6021 | 0.0158 | 1 | | |
| Rule of Law | -0.5249 | -0.5120 | 0.2708 | 0.3526 | -0.4970 | 0.4962 | 0.6728 | 0.1612 | 1 | |
| FDI as % of GDP | 0.0351 | -0.1071 | -0.3262 | 0.3703 | 0.1027 | 0.2767 | 0.5322 | 0.1951 | 0.3536 | 1 |

*Table 1. Correlation Matrix for US model*

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.9908 |
| R Square | 0.9817 |
| Adjusted R Square | 0.8999 |
| Standard Error | 46,433,805,904.0518 |
| Observations | 23 |

*Table 2. Regression Statistics for the US model*

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 9 | 1.6229E+24 | 1.8032E+23 | 8.3635E+01 | 4.9393E-10 |
| Residual | 14 | 3.0185E+22 | 2.1561E+21 | | |
| Total | 23 | 1.6531E+24 | | | |

*Table 3. ANOVA Table for US Tax Revenue Model*

From Table 1, it can be observed that the main macroeconomic factors: GDP, inflation rate, interest rate, and unemployment rate all have a positive correlation with tax revenue. Additionally, when the data is plot, it can be observed from the R square value from Table 2 that the model can be used to approximate tax revenue in the US. However, it can be observed from Table 1 that some elements have more of an effect on each rather than directly on the tax revenue. To further solidify the assertion that the US tax revenue can be predicted with the model, it can be observed that the significance of F value from Table 3 is less than the predetermined significance value of 0.05.

**Correlation between The US and UAE economies**

It will be assumed that the predictors used to build The US tax revenue could be used to attempt to model and predict The UAE tax revenue based on the correlations that will be defined below. The various issues and controls will be defined and addressed that will be set for the variables in order to try and achieve a result that is realistic.

**Other Considerations**

There are several other considerations, specific to UAE, that have to be taken before the prediction model is built. Most notable of which is the currency which will be used in the model. In this case, the US Dollar will be used since the UAE Dirham (AED) is pegged to the dollar which provides stability in our model and a consistent currency translation rate.

Considering the fact that the tax is a proportional tax structure, that may mean that companies will not be penalized and taxed at a higher for making more money than other companies. Therefore, the tax would be considered as part of the cost of doing business similar to how the VAT that was previously implemented did not have a significant effect on the economy (Saderuddin & Barghathi, 2018).

The net income threshold to be considered is set to AED 375,000, according to section 1.1:, after which companies begin to get taxed as well as it is an important consideration to identify just how much income is actually going to be taxed. To do that, data related to Small and Medium Enterprises (SMEs) in the UAE will be used. In the data SMEs are divided into three categories: Micro, Small, and Medium. Micro firms are defined by the SME report are generally companies who have nine employees or less and a revenue of AED 3 million or less. As of the date of the SME report, 61% of Dubai's corporate scene was comprised of micro companies. Furthermore, it can be observed from Table 5 in the report that about half of the companies present in Dubai fit into the three categories defined and have their respective net profit margin. The average net profit margin for SMEs, however, is 8%. Thus, it can be concluded based on the SMEs report that 61% of companies currently operating in Dubai will not have a corporate tax liability. Additionally, the report sheds light on the fact that micro firms contribute 10% of the gross value added of the Dubai

economy (Dubai SME, 2019). Therefore, for the analysis being conducted it will be assumed that 10% of the GDP will not contribute to the tax revenue.

Next, I want to consider the fact that Extractive business and government owned businesses are not taxed under the corporate tax law based on 1.2:. Thus, I will have to exclude any contributions that those firm make to the economy to achieve results that account for those exclusions. As of the year 2020, extractive businesses contributed 17% of the UAE's real GDP (Puri-Mirza, 2023). The main contributor in the extractive business category was the oil and sector field, which also had a surge of profits after the year 2020.

*Figure 1. Crude Oil Prices*

Because there is a lack of recent data, I used *Figure 1* to further reinforce that extractive businesses contributed to the overall percentage of the GDP will have grown due to the rise in prices over the three-year period and an increase in oil production as well (Statista Research Department, 2023).

The UAE, unlike the US, does not grant citizenship and the workforce is mostly expatriate, and thus they maintain a low unemployment rate over time that does not fluctuate much. Thus, unemployment would not be a good variable in predicting tax revenue, and that is evident from

Figure 2 where the trendline is almost flat. Thus, indicating that a correlation does not exist, or if it exists it is very weak.

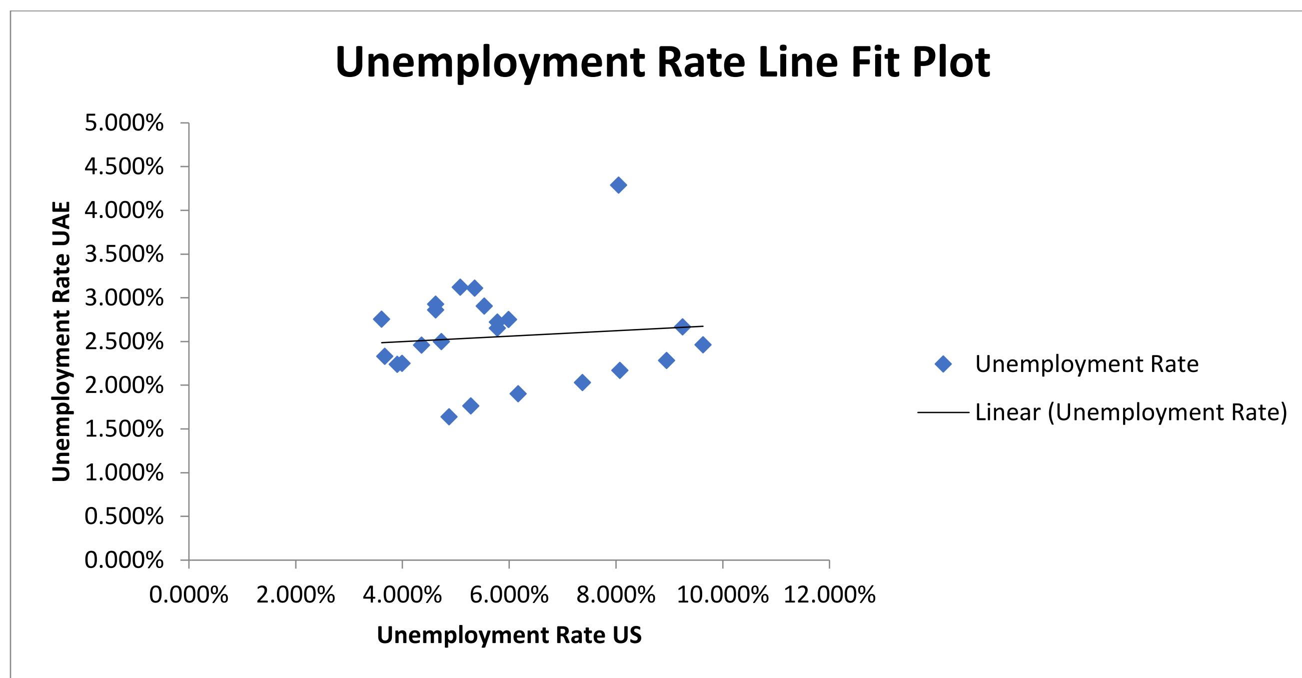


*Figure 2. Fitted Unemployment Rate Plot*

Finally, I would also like to note that The US corporate tax system changed from graduated tax structure to a flat rate of 21% in the year 2018. It is important to note the change in tax system since the changes can cause some inaccuracies in the model. However, it is impractical to solely begin the analysis from 2018 due to the limited and insufficient sample size.

**Correlating Predictor Variables**

When the GDP of the US is plotted against the GPD of the UAE, we can see that there is a very strong correlation between the two. In fact, we get an r-squared value of 92.7%. Thus, we can statistically conclude that the two economies are correlated when it comes to their gross domestic product. Figure 3 demonstrates that relationship by fitting a cubic function through the points.

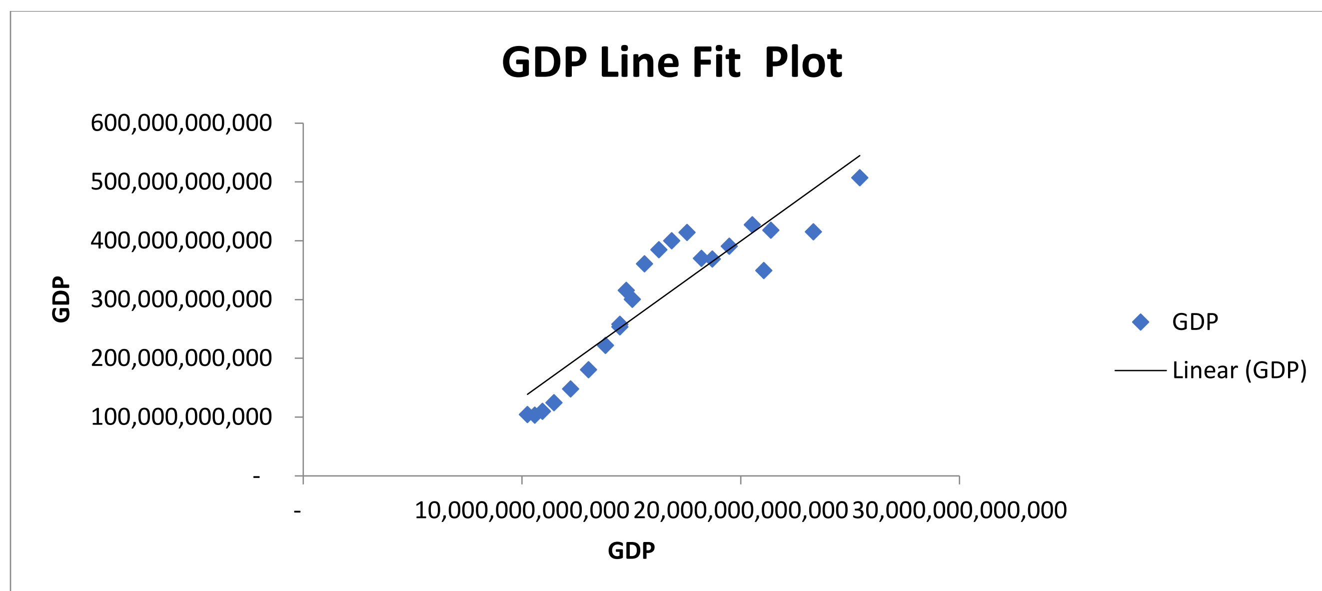


*Figure 3. Fitted GDP Correlation Plot*

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 2.3369E+24 | 2.3369E+24 | 6.3589E+02 | 3.4814E-17 |
| Residual | 22 | 8.0852E+22 | 3.6751E+21 | | |
| Total | 23 | 2.4178E+24 | | | |

*Table 4. ANOVA Table for GDP*

The significance of F produced in Table 4 is below my threshold value of 0.05, thus indicating a significant statistical relationship exists between the two countries' GDPs.

Next, I plotted the inflation rates in both countries against each other. I got an r-squared value of 52% indicating that there exists a correlation between the inflation rates in both countries. We also observe some outliers in the inflation rates in recent years that may be due to the differences in policy when reopening the economy after the Covid-19 pandemic. The UAE took more time to fully reopen compared with the US which explains the variances in 2021 and 2022.

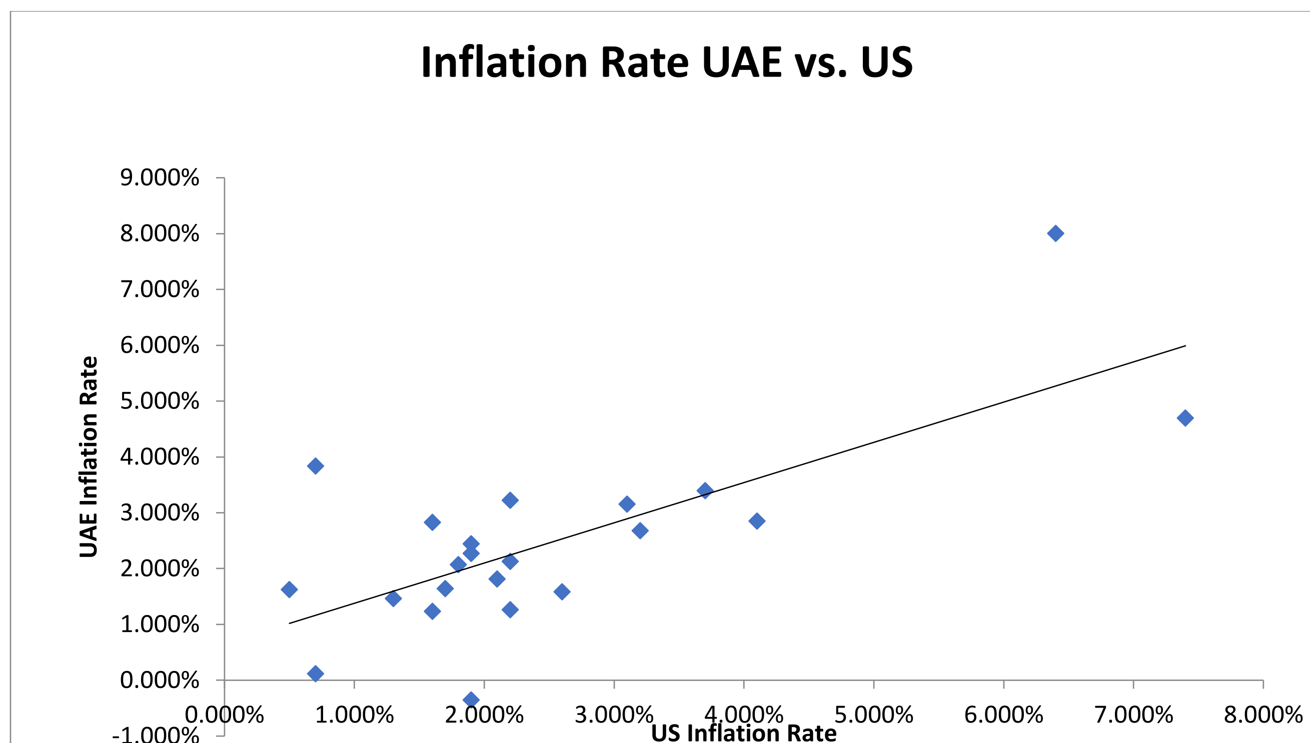


*Figure 4. Fitted Inflation Rates Correlation Plot*

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 0.0031 | 0.0031 | 21.7109 | 0.0002 |
| Residual | 20 | 0.0029 | 0.0001 | | |
| Total | 21 | 0.0060 | | | |

*Table 5. ANOVA Table for inflation rate*

Whilst the r-squared may indicate the correlation is a weak one, Figure 4 indicates that a linear relationship does exist. Additionally, from Table 5, the significance of F is below my predetermined significance value of 0.05. Thus, we observe that there is a statistically significant relationship with the inflation rate. Plotting the interest rates of The UAE against The US yields

Figure 5, which indicates a positive linear relationship between the interest rates in the two countries.

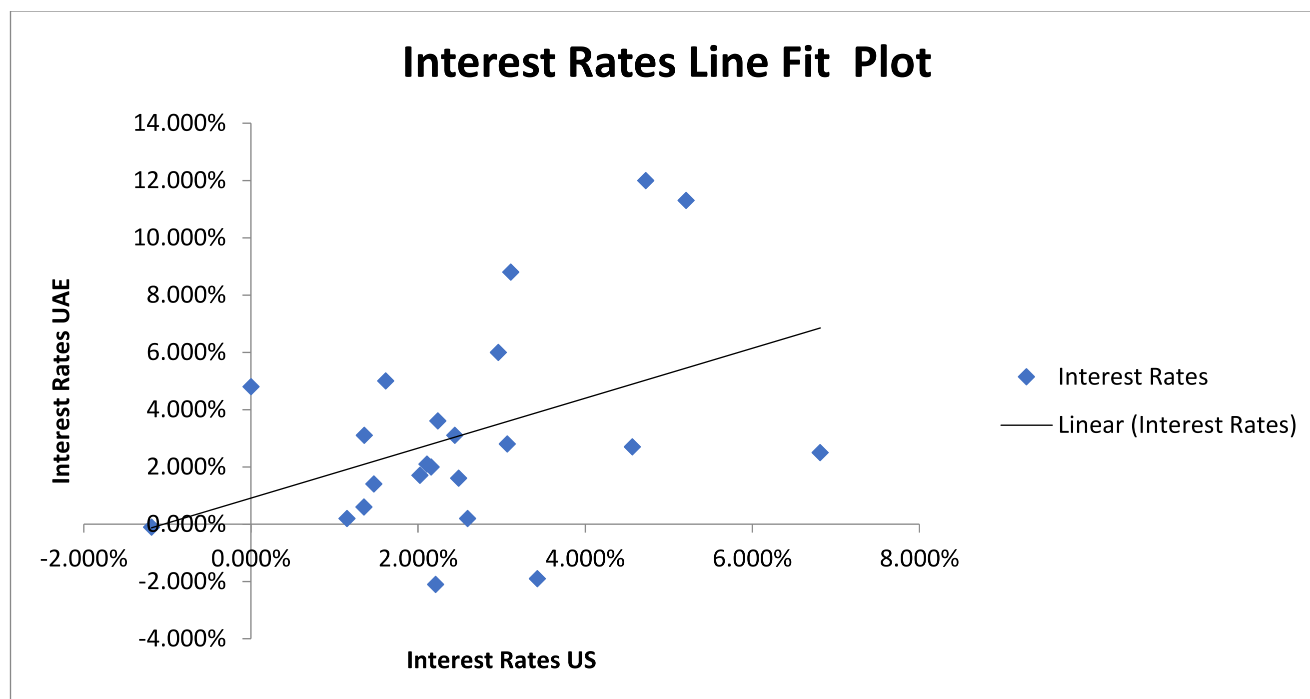


*Figure 5. Fitted Interest Rates Correlation Plot*

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.7192 |
| R Square | 0.5172 |
| Adjusted R Square | 0.4717 |
| Standard Error | 0.0335 |
| Observations | 23 |

*Table 6. Regression Statistics of Interest Rates*

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 0.02643 | 0.02643 | 23.56581 | 0.00008 |
| Residual | 22 | 0.02467 | 0.00112 | | |
| Total | 23 | 0.05110 | | | |

*Table 7. ANOVA Table for Interest Rate*

From Table *6* I got an R-squared of approximately 52%, indicating that there is a relationship between the two countries' interest rate. Additionally, Table *7* contains the value of the significance

of F which is smaller than my threshold of 0.05 indicating that a relationship does indeed exist between the interest rates.

The correlation between the remaining predictor variables can be observed in the tables below. All the regression statistics tables display a positive correlation between the metrics in the two countries. The significance values also show a statistically significant relationship since they are below the set threshold of 0.05.

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.9906 |
| R Square | 0.9812 |
| Adjusted R Square | 0.9358 |
| Standard Error | 0.1138 |
| Observations | 23 |

*Table 8. Regression statistics of political stability*

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 14.8949 | 14.8949 | 1149.9374 | 0.0000 |
| Residual | 22 | 0.2850 | 0.0130 | | |
| Total | 23 | 15.1799 | | | |

*Table 9. ANOVA table for political stability*

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.7404 |
| R Square | 0.5481 |
| Adjusted R Square | 0.5027 |
| Standard Error | 0.7707 |
| Observations | 23 |

*Table 10. Regression Statistics of government effectiveness*

| | df | SS | MS | F | Significance F |
|---|---|---|---|---|---|
| Regression | 1 | 15.8509 | 15.8509 | 26.6876 | 0.0000 |
| Residual | 22 | 13.0668 | 0.5939 | | |
| Total | 23 | 28.9177 | | | |

*Table 11. ANOVA table for government effectiveness*

| Regression Statistics | |
|---|---|
| Multiple R | 0.9518 |
| R Square | 0.9059 |
| Adjusted R Square | 0.8605 |
| Standard Error | 0.2585 |
| Observations | 23 |

*Table 12. Regression statistics of regulatory quality*

| | df | SS | MS | F | Significance F |
|---|---|---|---|---|---|
| Regression | 1 | 14.1601 | 14.1601 | 211.8387 | 0.0000 |
| Residual | 22 | 1.4706 | 0.0668 | | |
| Total | 23 | 15.6307 | | | |

*Table 13. ANOVA table for regulatory quality*

| Regression Statistics | |
|---|---|
| Multiple R | 0.9443 |
| R Square | 0.8916 |
| Adjusted R Square | 0.8462 |
| Standard Error | 0.2101 |
| Observations | 23 |

*Table 14. Regression statistics of rule of law*

| | df | SS | MS | F | Significance F |
|---|---|---|---|---|---|
| Regression | 1 | 7.9895 | 7.9895 | 181.0343 | 0.0000 |
| Residual | 22 | 0.9709 | 0.0441 | | |
| Total | 23 | 8.9604 | | | |

*Table 15. ANOVA table for rule of law*

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.7633 |
| R Square | 0.5826 |
| Adjusted R Square | 0.5371 |
| Standard Error | 0.0244 |
| Observations | 23 |

*Table 16. Regression statistics of FDI as % of gdp*

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 0.0183 | 0.0183 | 30.7019 | 0.0000 |
| Residual | 22 | 0.0131 | 0.0006 | | |
| Total | 23 | 0.0314 | | | |

*Table 17. ANOVA table for FDI as % of gdp*

Finally, the average tax rates are not going to be correlated since the law was just recently established and has not gone into effect as of the writing of this paper. However, it is going to be taken into consideration as part of the model, otherwise the model will be taken at the 21% interest rate.

**Building the Model**

In this section, I employ an ordinary least square regression model to estimate tax revenue. Since all the predictor variables but unemployment have been statistically proved to be correlated in "Correlation Between US Tax Revenue and Macroeconomic Factors" in section 5.2:. From the fact that the predictor variables were correlated to US tax revenue and the factors were correlated to each other, t can be inferred that the US model could be adjusted to roughly fit and predict the UAE tax revenue.

Based on data from Statista, The United States 11.6% of the GDP is comprised of government services. Another 1.9% is mining, which is considered extractive in the UAE based on 1.2:. Finally, utilities formed 1.7% of the economy, which are also not taxable entities in the

UAE It will be assumed that these figures are consistent for our purposes to make the regression proportional. Unemployment will also be removed from the US model since there does not exist a correlation in that metric between the two countries. Finally, it is important to note that unlike the US, the UAE does not have personal income tax. Therefore, the tax revenue in the model will be replaced with the corporate income tax revenue.

The model is as follows:

$$Corportate\ Tax\ Revenue = \beta 0 + \beta 1 AdjustedGDP_t + \beta 2 InterestRate_t + \beta 3 InflationRate_t + \beta 4 Controls + \varepsilon$$

*Equation 1. Linear regression model developed to predict tax revenue*

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
|---|---|---|---|---|
| Intercept | 0 | | | |
| Adjusted GDP | 0.0130 | 0.0039 | 3.3552 | 0.0047 |
| Interest Rates | (242,284,786,530.6350) | 1,025,072,653,714.6100 | (0.2364) | 0.8166 |
| Inflation Rate | 473,638,103,936.9700 | 919,317,448,682.2380 | 0.5152 | 0.6144 |
| Political Stability | (272,493,206,551.3850) | 140,001,465,846.2530 | (1.9464) | 0.0720 |
| Government Effectiveness | (98,970,457,680.0386) | 52,872,440,973.6033 | (1.8719) | 0.0823 |
| Regulatory Quality | (149,300,276,181.6180) | 113,417,567,822.7340 | (1.3164) | 0.2092 |
| Rule of Law | 315,270,927,139.1840 | 138,478,752,764.4310 | 2.2767 | 0.0390 |
| FDI as % of GDP | 3,432,011,112,035.8900 | 2,405,134,198,725.2300 | 1.4270 | 0.1755 |
| Average Tax Rate | 1,360,499,417,592.4100 | 423,644,692,516.2490 | 3.2114 | 0.0063 |

*Table 18. Coefficients for adjusted regression model*

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.9908 |
| R Square | 0.9817 |
| Adjusted R Square | 0.8999 |
| Standard Error | 46,433,805,904.0518 |
| Observations | 23 |

*Table 19. Regression statistics for adjusted regression model*

Based on the regression model in Table 18, the r squared shows a strong relationship between the adjustments with corporate tax revenue. The significance of F-value in Table 20 leads to the same conclusion.

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 9 | 1.6229E+24 | 1.8032E+23 | 8.3635E+01 | 4.9393E-10 |
| Residual | 14 | 3.0185E+22 | 2.1561E+21 | | |
| Total | 23 | 1.6531E+24 | | | |

*Table 20. ANOVA table for adjusted model*

**Testing the Model**

It is vital to note that there is no current data as of the writing of this paper to accurately measure the accuracy or the robustness of the model. The model was built to ballpark the expected tax revenue for informational and research purposes.

In order to have an idea of the efficacy of the model, I collect data from The World Bank, IMF, and Statista that pertain to the UAE for the five years preceding the enactment of the corporate tax law – from the year 2018 through the year 2022. I utilize UAE data to estimate annual corporate tax revenue from 2018 to 2022. The results can be seen in Table 21 under the expected tax revenue column. In the second column, I present the anticipated tax revenue as a percentage of GDP. Given the absence of actual tax data, I use the estimated tax revenue derived from the model for a specific year and divide it by the corresponding GDP for that year. This approach allows me to assess the plausibility of the estimated outcomes and compare them to those of the US.

From Table 21, it is observed that there is a big variation in the tax rate; however, we can observe that the model is able to yield results that average about 22% of the GDP between the years 2018 and 2022. The US tax revenue averaged 17% of GDP in the same time period. There is a slight variance between the numbers and that may be the case for a variety of reasons, namely that the UAE excludes extractive businesses from corporate tax. Thus, the adjustment that was previously made was not sufficient for previous years.

Another observation from Table 21 is that the model had a negative tax revenue output for the year 2018. The UAE tax code explicitly does not offer refunds except for tax credits that are beyond taxable income as can be observed in 3.2:, therefore the negative result does not make sense and the expected tax revenue will be at the very least zero. The negative result could be from a variety of factors, namely the high dependence on hydrocarbons at the time, and the associated fuel prices increasing the profits of extractive companies.

The model will be properly evaluated when several fiscal year pass, and companies have paid corporate taxes during that period. Only then will it be feasible to compare the output of the model to the actual data.

| Year | Expected Tax Revenue | Expected Percentage of GDP |
|---|---|---|
| **2018** | (8,273,878,608.07) | -1.94% |
| **2019** | 77,941,694,085.79 | 18.65% |
| **2020** | 158,988,820,761.37 | 45.49% |
| **2021** | 123,409,133,373.22 | 29.72% |
| **2022** | 96,898,739,852.88 | 19.11% |

*Table 21. Estimated Tax Revenue*

## Conclusion

Due to the very recent nature of the law and the scope of this paper, sufficient data for a more accurate and reliable prediction model is not yet available for analysis. As such, the model provided is just a rough estimate of the potential corporate tax revenue in the United Arab Emirates.

The UAE is ranked #1 in a lot of fields, including innovation and infrastructure (Mohammed, 2019). Even with no officially available public plans it is safe to assume that the money raised through the corporate tax system will be used to further develop the country and aide in their push in diversifying from the petroleum industry by supporting their SME development and improve innovation in the country.

As far as the implementation goes, previous research has shown that the VAT implementation was a relatively smooth one and thus one could expect that the corporate tax system would be similar (Saderuddin & Barghathi, 2018). The system would however force everyone to register, regardless of whether they meet the income threshold. It would also make companies that were not previously audited in need of an audit which would further strengthen the accounting sector in general and further emphasize the IFRS standards especially if audited by a "Big 4" (Muath, Khalil, & Darwish, 2021).

The model developed is important and relevant for a number of different reasons. Namely, as I have mentioned throughout this paper, the UAE is decreasing its dependence on hydrocarbons which have historically funded government expenditures. With the corporate tax system, they will be able to monetarily keep up with the same expansion strategy whilst reducing their carbon footprint. Also, the corporate tax revenue will enable the government to expand the services offered to stimulate the local business environment and further grow the economy.

From another perspective, the tax revenue model allows decision makers to roughly estimate the effects of economic decisions that will be taken and their effect on the tax revenue income stream. Finally, having an idea of what the possible tax revenue would be in the near future will help in budgeting and decisions and further developments of the tax code.

This study marks the beginning of efforts to estimate tax revenue. I anticipate that as more data becomes available in the coming years, scholars will be able to refine this model, thereby enhancing the decision-making processes.

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## Academic Vita

**EDUCATION**
The Pennsylvania State University
Bachelor of Science, Accounting, May 2024
Bachelor of Science, Mathematics, May 2024
Certified Managerial Accountant

**HONORS**
Schreyer Honors College Scholar pursuing an undergraduate thesis in Accounting
Penn State Altoona Honors College

**ACCOUNTING EXPERIENCE**
Deloitte
**Summer Audit Intern** June 2023 – July 2023
• Documented various internal controls and guided risk assessments
• Prepared multiple documents pertaining to audits, such as management representation letters
• Leveraged Excel and VBA to streamline various audit processes

Al Fadel General Trading, Ras Al Khaimah, United Arab Emirates
**Accountant in Training** May 2022 – August 2022
• Interacted and followed up with external auditors from Deloitte on the progress of the 2021 financial statements audit
• Maintained and reconciled bank accounts with company records
• Managed client accounts receivable in the range of $10,000,000
• Invoiced customers on leased equipment and sold materials
• Reconciled accounts payable with suppliers
• Presented issues on cash flow and operations management with solutions to management for decision-making

International Formation and Construction, Abu Dhabi, United Arab Emirates
**Temporary Lead Accountant** May 2021 – August 2021
• Prepared the semi-annual financial statements and presented them to the board
• Supervised a team of two employees as well as updated bookkeeping, receivable maintenance, and cash

Ready Mix Beton, Abu Dhabi, United Arab Emirates
**Accounting Intern** June 2020 - December 2020
• Analyzed different financial ratios and reported them to stakeholders
• Maintained accounts receivable and payable: aging reports, reconciliations, and confirmation balances
• Developed a Microsoft Excel Macro sheet to track employee costs such as vacation days, indemnity, and insurance

**WORK EXPERIENCE**
Penn State Altoona, Learning Resources Center, Altoona, PA
**Math and Accounting Tutor** August 2020 – May 2024
• Help students achieve their intended grades in subjects by structuring sessions around understanding student's needs, identifying their weaknesses, and then addressing them

**COMPUTER SKILLS**
SQL, Python, Java, R, Microsoft Word, Excel, Excel VBA, PowerPoint