

Detailed Guide to Ministerial Decision No. 173 of 2025

UAE Corporate Tax Update Update

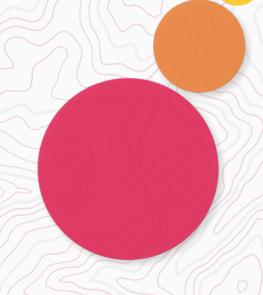
Depreciation Relief for Investment Properties Held at Fair Value

Effective from 1 January 2025









Introduction

Ministerial Decision No. 173 of 2025 introduces a key tax relief for fair value investment properties:

- Eligible businesses may now deduct depreciation for tax purposes on investment properties measured at fair value.
- Brings long-overdue *alignment* between *fair value accounting* and *corporate tax treatment*.
- Offers *clarity and relief* to real estate investors under the UAE Corporate Tax regime



What Triggered This Change?



PROBLEM

Fair value model (IAS 40) does not record depreciation.



No tax deduction → Higher taxable income



SOLUTION

Introduces a tax
adjustment
mechanism for
investment properties
measured at fair value







Who Can Elect This Option?

Apply the realisation basis under Article 20(3) for gains and losses

(4)

(5)

Article 20(3) = Gains/losses taxed only when the property is sold, not when its value changes on paper.







What Does the Election Permit?

By making the election under Ministerial Decision No. 173, a Taxable Person can:

- Make a one-time choice that can't be changed later.
- Deduct depreciation each year on investment properties valued at fair market rates even if not shown in your books.
 - The rule must be used for all fair value properties, not just some *it's all or nothing*



How Much Can Be Deducted?

The annual depreciation amount you can claim for tax purposes is the lower of the following two values:

CLAIM

4% of the property's original cost This means the price you paid when

you acquired it (including any capitalized improvements)

OR

The tax written down value (TWDV) at the beginning of the tax year this is the remaining value after subtracting past depreciation claimed for tax



If the property was owned for only part of the year or if your tax period is shorter or longer than 12 months, the deduction must be adjusted proportionately.

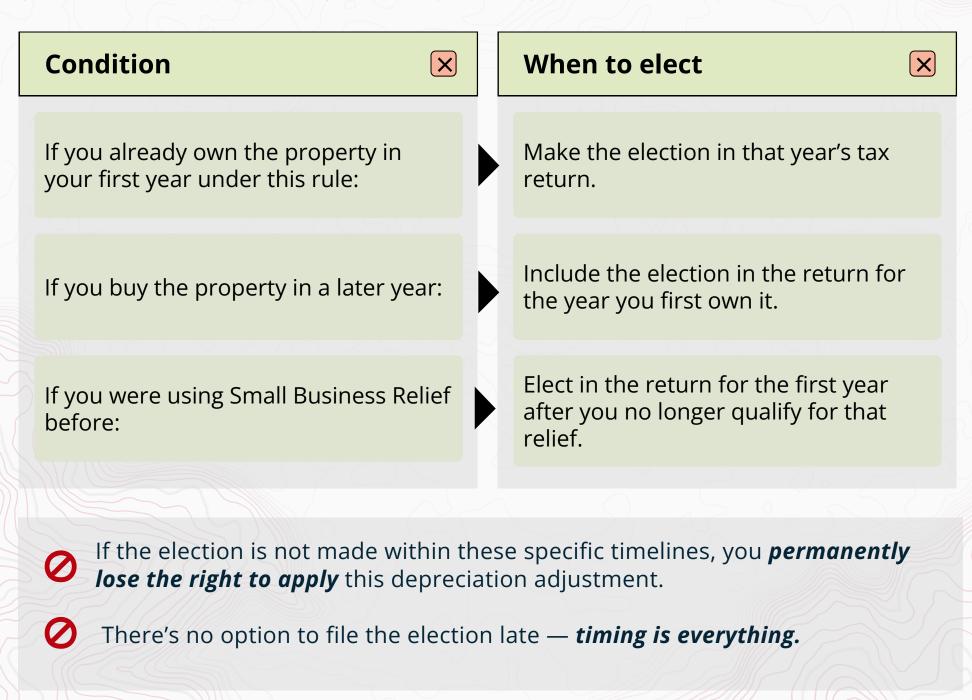




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When Must the Election Be Made?

You must include the election in your tax return based on when you own the property or stop using small business relief:







The timing of the adjustment to taxable income — to reverse previously claimed depreciation — depends on the nature of the triggering event:



Adjustment in the Same Tax Period

The depreciation deduction must be added back in the tax return for the period in which the event occurs, if the event is:

- Sale, disposal, transfer, derecognition, or worthlessness of the investment property.
- Change in accounting policy (from fair value model to cost model)
- Business cessation (including liquidation or dissolution)



Adjustment in the Tax Period Immediately Preceding the Event

If the taxable person:

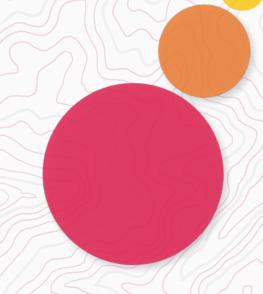
- Becomes an Exempt Person, or
- Elects for Small Business Relief (Article 21),

then the reversal of depreciation must be reflected in the last tax period before the status change takes effect.

This ensures that the depreciation relief is neutralized when the investment property exits the taxable scope, maintaining consistency with corporate tax principles.







Exceptions and Anti-Abuse Rule

In specific transfer scenarios, previously claimed depreciation does not need to be reversed, provided the conditions below are met:



No Add-Back Required If the Property Is Transferred:

- **Within a Tax Group:** where both the transferor and transferee are members of the same registered tax group.
- **Under Article 26:** transfers within a qualifying group (e.g., 75% or more common ownership, meeting prescribed conditions)
- Under Article 27: transfers qualifying as part of a business restructuring relief.

In these cases, the depreciation deduction is not added back in the transferor's taxable income, and the transferee continues using the carried-over tax value.



Anti-Abuse Rule (Article 6 of the Decision)

Where the investment property is transferred between **related parties**, the Federal Tax Authority (FTA) may **disallow the depreciation deduction** if:

- The transaction or arrangement lacks a valid commercial or non-tax reason, or
- It does not reflect economic reality

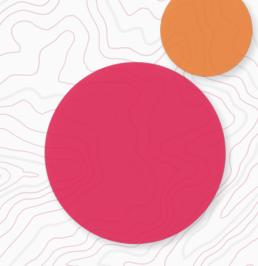
The FTA holds discretionary powers to disregard such deductions in artificial or taxmotivated transactions.

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Key Takeaways & What to Do Next

Key Takeaways:



Bridges the gap between financial reporting under the fair value model and corporate tax treatment by allowing depreciation deductions even when not recorded in the books.



Provides equitable tax treatment for businesses that measure investment property at fair value, ensuring they are not disadvantaged compared to cost model users.



Maintains long-term neutrality by requiring reversal of tax depreciation upon realisation events such as sale, derecognition, or change in tax status.



Supports compliance clarity and planning for real estate owners, asset-holding entities, and developers under the UAE Corporate Tax regime.

Next Steps for Taxpayers:



investment properties measured at fair value under IAS 40



Evaluate whether
Article 20(3)
(realisation basis)
is or should be
elected



Calculate potential depreciation deductions and assess impact on taxable income



Prepare to make the election in the applicable tax return starting from the first tax period on or after 1 January 2025





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