UAE Research & Development Tax Credit

Introduction

On 18 March 2026, the Ministry of Finance ("MoF") issued Cabinet Decision No. 215 of 2025 ("CD 215") and Ministerial Decision No. 24 of 2026 ("MD 24"), establishing a new Research and Development ("R&D") Tax Credit framework for the purposes of the UAE Corporate Tax Law ("CT Law") and the implementation of the Top-up Tax regime applicable to multinational enterprise groups ("Pillar Two"). The new measures apply to Tax Periods or Fiscal Years commencing on or after 1 January 2026. This initiative represents a significant milestone in supporting the UAE's strategic ambition to strengthen its position as a global centre for advanced industries, innovation, and emerging technologies.

The MoF has characterised the current regime as "Phase 1" of the R&D Tax Credit framework, indicating that further enhancements may be introduced in a subsequent phase. Potential developments include the introduction of refundable tax credits and/or an expansion of the scope of Qualifying R&D Expenditure, informed by the experience and insights gained during the implementation of Phase 1.

Eligibility for the R&D Tax Credit

The R&D Tax Credit is available to UAE juridical persons, including Qualifying Free Zone Persons, as well as foreign juridical persons that maintain a Permanent Establishment in the UAE, provided they are subject to UAE Corporate Tax ("CT") and/or Top-up Tax. Entities that are not subject to UAE CT or Top-up Tax, as well as those that have elected to apply Small Business Relief ("SBR"), are not eligible to claim the R&D Tax Credit.

The key features of the R&D Tax Credit framework are summarised below.

1. R&D Tax Credit Rates

MD 24 introduces a tiered R&D Tax Credit regime based on the amount of Qualifying R&D Expenditure incurred and the average number of R&D personnel employed. To qualify, taxpayers must satisfy both expenditure and staffing thresholds.

Qualifying R&D Expenditure	Average Number of R&D Staff	R&D Tax Credit Rate
First AED 1 million	At least 2	15%
Exceeding AED 1 million up to AED 2 million	At least 6	35%
Exceeding AED 2 million up to AED 5 million	At least 14	50%

Under Phase 1, the maximum R&D Tax Credit available is capped at AED 2 million per Tax Period or Fiscal Year. The credit may be used to offset UAE CT liabilities and, where applicable, Top-up Tax liabilities.

2. Qualifying R&D Activities

The R&D Tax Credit applies to Qualifying R&D Activities undertaken in the UAE as part of a Qualifying R&D Project. Whether an activity qualifies must be assessed with reference to the OECD Frascati Manual.

To qualify, the activity must be:

- Novel;
- Creative;
- Uncertain;
- Systematic; and
- Transferable and/or reproducible.

Activities in the fields of social sciences, humanities, and the arts are specifically excluded from the definition of Qualifying R&D Activities.

3. Qualifying R&D Expenditure

Qualifying R&D Expenditure includes:

- Employee costs;
- Consumables;
- Subcontracting costs;
- Arm's length costs allocated under a cost contribution arrangement; and
- Capitalised costs relating to internally generated intangible assets.

CD 215 imposes several additional conditions, including:

- A Qualifying R&D Project must incur at least AED 500,000 of R&D expenditure per project (excluding the 30% uplift on staff costs);
- Expenditure must be incurred wholly and exclusively for Qualifying R&D Activities. Where expenditure relates to multiple purposes, only the portion attributable exclusively to Qualifying R&D Activities may qualify;
- The expenditure must generally be deductible for CT purposes, except for capitalised expenditure relating to internally generated intangibles;
- Expenditure directly or indirectly funded through a grant is excluded; and
- Qualifying R&D Expenditure must not benefit from any other tax incentive, credit, exemption, or relief.

4. Pre-Approval and Compliance Requirements

Taxpayers must obtain pre-approval from the Emirates Research and Development Council (the "Council") for each Qualifying R&D Project by submitting an application in the prescribed form and manner. The Council has yet to publish detailed procedures and timelines for the approval process.

Once approved, the R&D Tax Credit claim must be submitted as part of the taxpayer's CT return, together with supporting documentation prescribed under CD 215, including:

- A management declaration;
- Audited financial statements; and
- A detailed breakdown of Qualifying R&D Expenditure.

The Council may also impose additional compliance obligations, including requests for project updates and progress reports.

5. Additional Considerations

The R&D Tax Credit must first be applied against UAE CT liabilities before being utilised against any Top-up Tax liabilities. Any unused credit may be carried forward or transferred to another eligible person, subject to prescribed conditions. In the context of a Pillar Two Domestic Group, unused credits may be used to offset the group's Top-up Tax liability.

Where the conditions applicable to a Qualifying R&D Project cease to be satisfied, in whole or in part, any R&D Tax Credit already utilised in relation to that project may be clawed back, while any unused portion may be forfeited. Where the credit has been used to reduce a Top-up Tax liability, constituent entities and joint ventures may be jointly and severally liable for any clawback amount.

In a business transfer scenario, unused R&D Tax Credits may generally transfer to the acquirer. However, clawback provisions may apply if the transferred business is discontinued within two years of the transfer.

The framework also includes anti-abuse measures aimed at preventing arrangements designed to artificially separate business activities or otherwise obtain unintended R&D Tax Credit benefits.

Key Takeaways

The introduction of the UAE's R&D Tax Credit regime represents a significant incentive for businesses investing in innovation and technological development. While Phase 1 provides a non-refundable tax credit framework, the Ministry of Finance has indicated that future phases may introduce refundable credits and broaden the scope of eligible expenditure, potentially enhancing the attractiveness and accessibility of the regime.

Practical Considerations and Next Steps

- The Phase 1 R&D Tax Credit operates as a non-refundable incentive. However, the Ministry of Finance has indicated that future iterations of the regime may introduce enhanced benefits, potentially including refundable credits and a broader range of qualifying expenditure.

- Although detailed guidance on the pre-approval process, application procedures, and submission timelines is still awaited, businesses should begin evaluating their R&D portfolios now. International best practices from established R&D incentive regimes, together with the OECD Frascati Manual criteria, can provide a useful framework for identifying potentially qualifying projects and supporting activities.

- Given the expected lead time required to secure project approvals and compile supporting evidence, organisations should prioritise an early assessment of eligibility and the preparation of the technical documentation necessary to substantiate R&D Tax Credit claims.

- Successful implementation of the regime will require close coordination across multiple functions, including R&D, finance, tax, and legal teams. A collaborative approach will be essential to identify qualifying projects, maintain robust supporting records, and accurately track eligible expenditure throughout the project lifecycle.

- Businesses participating in R&D Cost Contribution Arrangements should review these arrangements from a transfer pricing perspective to determine the extent to which allocated costs satisfy the requirements for Qualifying R&D Expenditure under the new framework.

- For groups within the scope of Pillar Two, careful consideration should be given to the interaction between the R&D Tax Credit and the Domestic Minimum Top-up Tax (DMTT) regime. In particular, the treatment of the credit for GloBE purposes, its impact on effective tax rate calculations, and the potential application of the OECD's Substance-based Tax Incentives Safe Harbour will require detailed analysis.

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