



FTI Alert – R&D Tax Credit Regime in UAE

May 2026

On 18 March 2026, the UAE announced the launch of a research and development (“R&D”) tax credit regime, representing a significant step in strengthening the UAE’s innovation ecosystem. Following a public consultation process in 2024, the UAE Ministry of Finance has now formally introduced the R&D tax credit regime through Cabinet Decision No. 215 of 2025 (“C.D. 215”)¹ and Ministerial Decision No. 24 of 2026 (“M.D. 24”),² which provide the legislative framework and detailed implementation rules, applicable to **financial years commencing on or after 1 January 2026**.

In its current “Phase 1” design, the regime provides a non-refundable R&D Tax Credit of up to 50% on qualifying expenditure, capped at AED5 million to UAE entities undertaking eligible R&D activity in the UAE. The credit is determined based on tiered rates (15%, 35% and 50%), linked to qualifying spend and R&D headcount. The credit may be offset against corporate tax (“CT”) liabilities under UAE’s CT Law (“the CT Law”)³ and, subject to ordering rules, against Top-up Tax liability under the UAE’s Domestic Minimum Top Up Tax Rules (“the DMTT Law”).⁴

The definition of R&D activity under the regime is based on the internationally recognised principles from the Organisation for Economic Cooperation and Development (“OECD”) Frascati Manual covering the guidelines for Collecting and Reporting Data on Research and Experimental Development, ensuring consistency with global standards.⁵

Other key features include mandatory pre-approval of projects by the UAE R&D Council and a defined scope of eligible costs, such as staff costs – with a 30% uplift – consumables, subcontracting fees and arm’s length

cost contribution payments. Further, the benefit is expanded to apply in case of tax grouping, transfer of business and transfer of credit within a group, subject to specific conditions.

This update highlights key aspects of the regime and practical considerations for businesses undertaking R&D in the UAE.



Effective date of the R&D tax credit regime

The R&D tax credit regime applies to financial years commencing on or after **1 January 2026**.

Key highlights of the R&D tax credit regime

What is the R&D Tax Credit and how is the benefit available?

The R&D Tax Credit applies to qualifying R&D expenditure incurred by qualifying entities in respect of qualifying R&D activities carried out in the UAE and is claimed as part of the relevant CT or Top-up Tax return.

Key aspects of this incentive include:

- The credit is calculated based on qualifying R&D expenditure incurred in the relevant tax period by a Qualifying Entity, subject to applicable thresholds and conditions.
- The credit may be applied at a tax group level or by certain UAE juridical persons, meeting specific conditions.
- The credit is non-refundable and may only be utilised against CT and/or Top-up Tax liability.
- A valid claim requires pre-approval of the R&D project and submission of supporting documentation as part of the tax return.
- Any unutilised tax credit can be carried forward to future years — subject to conditions. Further, the carried forward R&D Tax Credits must be applied before applying the credits arising in later years.

Qualifying entities: Who is eligible?

- UAE juridical entities — including a free zone entity — subject to CT or Top-up Tax are eligible.
- Foreign juridical entities with a UAE permanent establishment carrying out qualifying R&D activities are eligible.
- Excluded entities that are neither subject to CT nor Top-up Tax (e.g. exempt persons under both CT Law and DMTT Law) are excluded, alongside entities that

have elected for the small business relief under the UAE CT Law or any other entities as may be specified by the Minister.

Qualifying entities must meet the following conditions:

- There are minimum levels of R&D staff per Qualifying Entity or tax group in each financial year.
- Qualifying entities must bear the financial burden of carrying out the R&D activities.
- Qualifying entities must be beneficially entitled to the results of the R&D.
- The relevant R&D project must be aimed at increasing the stock of knowledge or developing new applications of existing knowledge and that the activities are directly undertaken to meet this objective.
- Qualifying entities must obtain the necessary pre-approvals from the Emirates R&D council (“the Council”) and comply with ongoing compliance requirements. This includes submitting R&D project progress updates and technical documentation, if required by the Council.
- Comply with all the requirements issued by the Minister, Council or Authority in implementation of the regime.

FTI Comments – The requirement for economic ownership, substance and demonstrable innovation aligns with global tax principles and ensures that only entities undertaking genuine R&D activities in the UAE benefit from the regime. The conditions of financial responsibility and beneficial entitlement with the entity undertaking R&D activity, are stringent and should be specifically considered for groups organising R&D as centralised/sub-contracted function (i.e. where R&D is undertaken by another entity, subject to specific provisions as applicable in the current regime).

R&D Tax Credit rates and thresholds

Tiered credit rates based on expenditure and staffing thresholds are introduced, with a cap of AED5 million on expenditure:

Maximum qualifying R&D expenditure per Qualifying Entity or Tax group in each financial year	Average number of R&D staff per Qualifying Entity or tax group in each tax period or fiscal year	R&D Tax Credit rate*
First AED1 million	At least 2	15%
More than AED1 million - AED2 million	At least 6	35%
More than AED2 million - AED5 million	At least 14	50%

*The tax credit is arrived as a specified percentage of the qualifying expenditure incurred

The taxpayer is required to meet both conditions of expenditure and minimum average staff as specified above.

If either threshold is not met, the R&D Tax Credit rate will be adjusted downward to the highest rate for which both thresholds are satisfied. Illustratively, if a qualifying expenditure of AED1.5 million was incurred with staff of four R&D employees, then the tax credit will be adjusted to 15%, being the first threshold.

Qualifying R&D expenditures:

The following categories of expenditure are considered qualifying R&D expenditure where incurred by a Qualifying Entity in respect of qualifying R&D activities:

FTI Comments – The progressive structure incentivises scaling of R&D activities, linking higher benefits to both investment and workforce commitment. It includes sub-contracting arrangements and cost contribution arrangements in the UAE with specific rules to compute the thresholds in such cases. Further, it may be noted that the maximum value of incentive available can be up to USD544,588 based on the tier structure provided above.

Nature of costs	Key aspects
Staff Costs	<ul style="list-style-type: none"> Includes eligible staff costs plus a 30% uplift to account for overheads attributable to R&D activities. Covers all employment-related expenses incurred under legal or contractual obligations (e.g. salaries, medical insurance, pension contributions, end-of-service gratuity, benefits in kind and relevant training costs). Excludes employee stock option plans. Applies to R&D personnel located in the UAE, operating under the supervision, direction and control of the Qualifying Entity. Includes employees, seconded personnel and certain external workers – subject to conditions.
Consumable costs	<ul style="list-style-type: none"> Refers to expenditure on materials and items that are consumed, transformed or no longer usable in their original form during R&D activities. Examples include water, fuel, power, license fees and similar directly attributable costs.
Subcontracting fees	<ul style="list-style-type: none"> Covers costs incurred for outsourcing Qualifying R&D activities, subject to specific conditions. Subcontracted activities must not be further subcontracted and must not have been originally subcontracted to the Qualifying Entity by another party. Eligible expenditure equals the amount paid to the subcontractor, subject to compliance with the arm's length principle under the Corporate Tax Law.

Nature of costs	Key aspects
Arm's length share of contributions under cost contribution arrangements	<ul style="list-style-type: none"> — Refers to arrangements where multiple parties share costs, risks and benefits of joint R&D activities. — A Qualifying Entity's share of contributions may qualify, provided it reflects its expected share of benefits and complies with the arm's length principle. — Contributions must be consistent with the entity's participation and economic benefit derived from the arrangement.
Other Specified Expenditure	<ul style="list-style-type: none"> — Includes any additional categories of expenditure that may be prescribed through future Ministerial Decisions.
Capitalised Costs	<ul style="list-style-type: none"> — Costs falling within the above categories may still qualify even if capitalised as internally generated intangible assets under applicable accounting standards.

Additional conditions for qualifying expenditure:

- Expenditure should be incurred in the UAE, wholly and exclusively for the purpose of the qualifying R&D activity.
- In cases where expenditure, costs, materials or items are only partially used in qualifying R&D activities, only the portion of the cost reasonably attributable to those activities should be considered.
- The expenditure should be a minimum of AED500,000 per R&D project.
- The expenditure should be deductible — except for the capitalised cost as aforesaid.
- Any expenditure funded by a government grant does not qualify, to the extent recorded in the financials.
- The expenditure should not be subject to any other relief/ incentive under the CT Law or any other law in UAE.

FTI Comments – Taxpayers should carefully assess the nature of costs to ensure they meet the eligibility conditions. Arguably, the condition of deductibility refers to deductibility under the provisions of CT Law and the same needs to be confirmed to claim the R&D Tax Credit. Clear tracking of both expensed and capitalised costs will be essential to support claims and ensure compliance.

Qualifying R&D activities:

To qualify, activities must be:

- Novel: aim to produce new findings.
- Creative: involve original concepts or hypotheses.
- Uncertain: the outcome or means of achieving it are not known in advance.
- Systematic: follow plan and budget.
- Transferable or reproducible: results can be applied or replicated in other contexts.

Where R&D activities are partly undertaken in UAE, a proportionate benefit will be provided. Qualifying R&D activities do not include any R&D activity conducted in the fields of social sciences, humanities and the arts.

FTI Comments – The criteria are aligned with OECD Frascati Manual standard, as expressly acknowledged in the M.D. 24, such that the activities must be evaluated in accordance with the OECD Manual. This ensures consistency with internationally recognized definitions of R&D. Taxpayers will be required to track R&D activities undertaken in and outside UAE.

Transfer of R&D Tax Credit

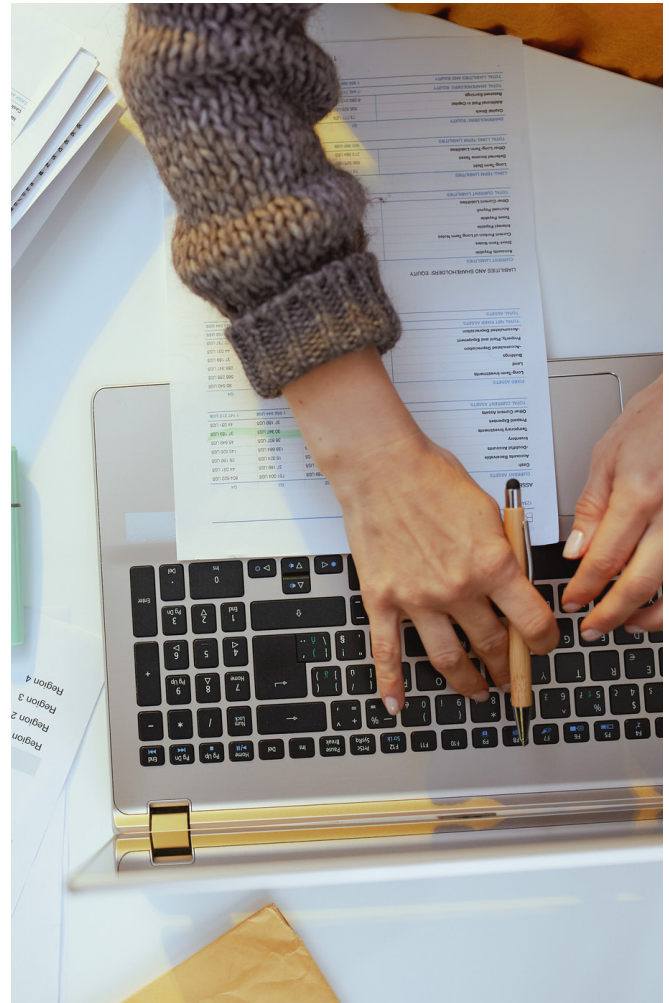
The R&D tax credit regime allows for the transfer of credits within a group, subject to specific ownership and utilisation conditions. Key aspects of the application include:

- Transfer permitted between entities that are at least 75% commonly owned or one entity owns 75% in the other, with ownership maintained through the financial years when credit arose and when it was utilised.
- The transferred credit must be utilised against the transferee’s CT and/or Top-up Tax liability for the relevant financial year.
- The amount transferred is limited to the transferee’s remaining tax liability after utilisation of its own credits. No further transfer or carry-forward of the transferred credit is permitted by the transferee.
- The transferor must reduce its available credit by the amount transferred.

Business Restructuring

Where a Qualifying Entity (“transferor”) transfers its entire business, or an independent part thereof, to a juridical person subject to CT and/or Top-up Tax (“transferee”), any unutilised R&D Tax Credits may be assumed by the transferee, in accordance with the conditions that would have applied to the transferor. Further, following conditions should be satisfied:

- The transferee continues the transferred business, including the relevant R&D activities, for a minimum period of two (2) years.
- The transfer satisfies the applicable conditions under Article 27(2) of the CT Law, including that it is undertaken in accordance with UAE legislation, between Taxable Persons in UAE (i.e., residents/non-residents having PE), with aligned financial years and accounting standards and for valid commercial reasons reflecting economic reality.
- The R&D Tax Credit was validly claimed by the transferor prior to the transfer.
- Where the transferee discontinues the qualifying R&D activities within two years of the transfer, a clawback applies, resulting in repayment of any unutilised tax credits to the Authority. This may result in penalties with the clawed-back amount treated as due or payable tax.



Utilisation within Tax Group

R&D Tax Credits generated by a Qualifying Entity within a tax group must be applied against the CT liability of the tax group, before it can be used for Top-up Tax liability or carried forward or transferred.

- Pre-grouping credits: Any R&D Tax Credits accrued prior to joining a tax group must be utilised first against the tax group’s CT liability, ahead of group-generated credits.
- Exit from tax group: Upon a member’s exit, R&D Tax Credits remain with the tax group, except for any unutilised pre-grouping credits, which remain with the departing entity.
- Cessation of tax group: If the Parent Company continues as a taxable person, credits remain with the Parent, otherwise the same are forfeited.
- Claw-back risk: If eligibility conditions are not continuously met for an R&D project, any credits utilised must be repaid to the Authority in accordance

with prescribed procedures. Tax group members are jointly and severally liable for clawed-back amounts, unless otherwise approved by the Authority.

- Compliance responsibility: The Parent Company is responsible for pre-approval, filing claims and ongoing compliance obligations for the tax group.

FTI Comments – Provisions relating to transfer of credits, business restructuring and tax group provide flexibility for group-level utilisation of R&D Tax Credits. However, taxpayers should carefully monitor thresholds, utilisation restrictions to ensure compliance. Additional rules and procedures will be issued for the application of the provisions of R&D tax credit regime to tax groups.

Incentive for Pillar 2 Groups

R&D Tax Credits generated by a Qualifying Entity that is part of a Domestic Group subject to UAE DMTT (including Constituent Entities, Joint Ventures, or JV Subsidiaries) must be applied against the Top-up Tax liability of the relevant Domestic Group.

- The Top-up Tax liability of the Domestic Group is reduced by the amount of R&D Tax Credits utilised.
- R&D Tax Credits must first be applied against Corporate Tax liabilities (of the entity, tax group or via transfer) before being utilised against Top-up Tax. Any unutilised R&D Tax Credits existing prior to joining the Domestic Group may also be used to offset the Domestic Group's Top-up Tax liability.

The following illustration depicts utilisation of R&D Tax Credit:

Particulars	Amount (percentage or currency)
Taxable Income (Assumed same for CT and Pillar 2 for simplification)	1000
CT liability (9% of 1000) [A]	90
Qualifying R&D Credit [B]	10
CT payable (After utilising R&D Credit) [A-B]	80 (ETR of 8%)
TUT percentage for UAE (15% less 8% ETR)	7%
TUT liability (7% of 1000) [C]	70
TUT payable (After utilising R&D Credit) [C-B]	60



- Joint Liability: All relevant Domestic Group members are jointly and severally liable for any clawed-back amounts. Further, applicable entities — including the Domestic Designated Filing Entity, where relevant — are liable for penalties, with clawed-back amounts treated as due or payable tax.
- Claw-back Risk: Where eligibility conditions are not continuously satisfied, any R&D Tax Credits utilised must be repaid to the Authority in accordance with prescribed requirements.
- Where a Qualifying Entity is not subject to CT, the Domestic Designated Filing Entity is responsible for pre-approval, filing claims and compliance obligations.

FTI Comments

- Application of R&D Tax Credit against a DMTT Liability provides an overall incentive to Pillar 2 Groups by directly reducing Top-up Tax payable in the UAE, thereby optimising the overall effective tax rate (“ETR”) in the UAE.
- The UAE R&D Tax Credit is aligned to the recent side-by-side (“SbS”) package released by the BEPS Inclusive Framework (“IF”), which acknowledges the benefit of qualifying tax incentive (“QTI”) for Pillar 2 purposes. Aligned to QTI, the R&D Tax Credit is a substance-based incentive provided in relation to substantive activities in UAE. However, the UAE R&D Tax Credit varies from the QTI safe harbour to the extent that (i) R&D Tax Credit provides a direct deduction from DMTT liability (as illustrated above) and (ii) QTI provides a substance cap limiting the amount of QTI — such limitation is not present in the UAE R&D tax credit regime.
- Additional rules and procedures will be issued for the application of the provisions of R&D tax credit regime to entities subject to UAE DMTT Law, where a centralised filing through a designated filing entity is adopted in UAE.

Anti-abuse and claw-back provisions

The R&D tax credit regime includes specific anti-abuse and claw-back provisions to ensure that the benefit is only available for genuine qualifying R&D activities and is not used to obtain unintended tax advantages.

- Claw-back of credits result when a Qualifying Entity no longer meets the eligibility conditions, with utilised credits required to be repaid and unutilised credits forfeited.
- Claw-back of credits result when arrangements are undertaken to obtain or increase the R&D Tax Credit in a manner inconsistent with the economic substance or genuine nature of the activities, with utilised credits required to be repaid — along with interest and penalties — and unutilised credits forfeited.

- Artificial separation rules, in that where businesses or activities are split to access higher thresholds or increase qualifying expenditure, which may be challenged and adjusted.
- Anti-abuse rules take effect, including restructuring scenarios and cases where R&D activities are discontinued or transferred and the relevant conditions are not met.
- Claw-back applies where, within five years of claiming an R&D Tax Credit, a Qualifying Entity undergoes a change in status, such as ceasing to be a Taxable Person, qualifying as a Free Zone Person, electing small business relief, entering into liquidation or redomiciling outside the UAE. Additionally, any unutilised R&D Tax Credit will lapse, with no ability to carry it forward to future periods.

Where the claw-back provisions apply, the taxpayer may incur penalties, with the amount of the R&D Tax Credit subject to claw-back treated as Due Tax or Payable Tax for penalty calculation purposes. Given that such clawed-back amounts are treated as Due Tax or Payable Tax, they would generally not be eligible for offset by tax losses, reliefs or other credits and must be settled in full.

FTI Comments – These provisions highlight the importance of ensuring that R&D activities are supported by appropriate substance and documentation. Taxpayers should carefully assess eligibility conditions on an ongoing basis and implement robust internal processes to track qualifying activities and expenditure, particularly in cases involving group structures, cost sharing arrangements or business restructuring.

Takeaways

The introduction of the R&D Tax Credit represents a notable enhancement to the UAE's tax landscape, underscoring its commitment to fostering innovation and substance-based economic activity. Importantly, the regime aligns with the OECD Pillar 2 framework by providing an opportunity to optimise the ETR in the UAE for Pillar 2 purposes.

With the issuance of Cabinet Decision No. 215 of 2025 and M.D. 24 of 2026, the UAE has established a comprehensive framework governing the eligibility, calculation and utilisation of the R&D Tax Credit. The regime introduces a structured incentive mechanism linked to qualifying expenditure and workforce thresholds, while aligning with internationally recognised principles for defining eligible R&D activities.

As with most incentive regimes, the eligibility criteria are stringent and require careful monitoring across different stages critical to claiming the R&D Tax Credit.

- Feasibility assessment: Evaluating whether activities and expenditures meet the qualifying criteria.
- Pre-approval process: Obtaining the necessary approvals prior to claiming the credit.
- Ongoing monitoring and claiming credit in the tax returns.
- Documentation and record-keeping: Maintaining robust and contemporaneous support for all claims.

¹ Cabinet Decision No. 215 of 2025

² Ministerial Decision No. 24 of 2026

³ Federal Decree Law No. 47 of 2022

⁴ Cabinet Decision No. 142 of 2024

⁵ "Frascati Manual 2015 Guidelines for Collecting And Reporting Data on Research and Experimental Development," OECD (2015) https://www.oecd.org/content/dam/oecd/en/publications/reports/2015/10/frascati-manual-2015_g1g57dcb

Several practical aspects remain to be clarified, including the form and process for pre-approval, whether claims will be assessed at the entity or project level, nature of supporting evidence required, etc.

Looking ahead, based on the earlier press release, a Phase 2 expansion of the R&D tax credit regime is anticipated. This may include the introduction of a refundable credit, an expansion of qualifying expenditures and enhanced incentives targeting priority sectors and broader segments of the economy.

Overall, the R&D tax credit regime presents a valuable opportunity for taxpayers undertaking substantive R&D activities in the UAE. However, a proactive and structured approach will be essential to ensure compliance and to maximise the benefits available under the regime.

How FTI can help?

- Assistance in project evaluation, feasibility assessment for the R&D Tax Credit regime
- Advisory on structuring R&D operations in UAE, including a cost benefit analysis, modelling, interaction with UAE Corporate Tax, transfer pricing and Pillar Two;
- Initial planning and workshops with stakeholders;
- Ongoing project screening and evaluation of eligibility to claim R&D Tax Credit
- Assistance in obtaining approvals, including cost review, claim preparation, submissions
- Assistance in documentation and record keeping.

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