IntexGlobal Blog Interest Deductibility

The 30% EBITDA Cap: Navigating the Interest Limitation Rule

Under the UAE Corporate Tax regime, you cannot simply deduct infinite interest expenses. To prevent the erosion of the tax base, the law imposes a cap on 'Net Interest Expenditure.' In general terms, any interest expense that exceeds 30% of your EBITDA (Earnings Before Interest, Tax, Depreciation, and Amortization) is considered non-deductible in the current tax period. While the law allows you to carry forward this excess interest for up to 10 tax periods, it creates a constant need for precise calculations and revenue management. For many businesses, failing to track this 30% threshold means paying corporate tax on income that could have been sheltered by interest expenses.

The De Minimis Safety Net

There is a vital safety net for smaller entities: the 'de minimis' threshold. If your Net Interest Expenditure is below a specified amount (typically AED 12 million), you may be able to fully deduct your interest costs regardless of the 30% EBITDA cap. However, this threshold must be monitored quarterly, not just at year-end. If your financing needs shift and you push your interest costs above this threshold, you instantly become subject to the EBITDA restriction, catching many businesses off guard during their annual filing.

The Arm's Length Principle for Related Parties

Interest payments to 'connected persons'—such as shareholders, partners, or parent companies—are heavily scrutinized by the FTA. You cannot arbitrarily set interest rates between your entities; the rate must be 'Arm's Length,' reflecting what a bank or independent third party would charge for a similar loan. If your interest rates are found to be inflated, the FTA will disallow the 'excess' deduction and recharacterize that payment as a non-deductible dividend distribution. This recharacterization creates a double-hit: loss of the interest deduction and a potential tax liability on the 'dividend.'

The Hidden Trap: Exempt Income Attribution

This is a frequently overlooked risk: interest expenses incurred to generate 'Exempt Income' (such as dividends qualifying for Participation Exemption) are generally not tax-deductible. If you use borrowed funds to acquire an investment that pays you exempt dividends, you must carefully attribute that interest to the exempt income and exclude it from your business deductions. Failing to separate these streams of capital, or mixing funds between taxable and exempt investments, provides the FTA with easy grounds to disallow significant portions of your interest expense.

Why Your Business Needs Intex Global for Interest Deduction Strategy

Interest deductibility is a delicate balance of financial leverage and regulatory compliance. With the 30% EBITDA cap and stringent Arm's Length requirements, it is remarkably easy to overstep and trigger a tax adjustment. At Intex Global, we ensure your debt financing strategy is both efficient and fully audit-proof.

We conduct rigorous analysis of your interest expenditure, ensuring it falls within the deductible EBITDA limits and calculating allowable carry-forwards for future periods. We specialize in structuring intercompany and related-party loans to align strictly with the Arm's Length Principle, ensuring your interest rates are defensible and protected from recharacterization as dividends. We help you maintain the essential documentation, including formal loan agreements and market benchmarking, that provides the necessary proof of economic substance required by the FTA. Don't risk your interest deductions on guesswork—partner with Intex Global to secure an optimized, compliant, and defensible debt financing framework.

Need an Audit-Proof Interest Deductibility Strategy? Contact Intex Global!