

# DETERMINANTS OF CORPORATE TAX PLANNING STRATEGIES AMONG MULTINATIONAL CORPORATIONS IN THE UNITED ARAB EMIRATES

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## Abstract

*Multinational corporations possess greater opportunities for tax avoidance than purely domestic firms due to their global scale, operational complexity, and ability to exploit regulatory mismatches. This study examines the determinants of corporate tax planning strategies in the context of the UAE's newly implemented federal corporate tax regime. Using effective tax rates as the proxy for tax avoidance, the analysis is based on a sample of 89 multinational corporations for the financial year ending 2024. Firm-level variables, including company size, profitability, foreign operations, capital intensity, and leverage, were tested using panel least squares regression. The findings reveal that, on average, multinational corporations in the UAE reported an effective tax rate of 9.84 percent, slightly higher than the statutory rate of 9 percent, explaining limited evidence of aggressive avoidance in the first year of enforcement. Regression results demonstrate that all firm-level variables are significant determinants of effective tax rates, though their effects deviate from traditional expectations. Larger and more profitable firms were associated with higher effective tax rates, consistent with political cost theory and the limited scope for deductions under the UAE regime. Foreign operations, capital intensity, and leverage also exhibited positive relationships with effective tax rates, reflecting restrictions on interest deductibility and the absence of generous capital allowances. These results highlight that while multinational corporations in the UAE are not yet aggressively minimizing taxes, structural characteristics strongly shape their tax burdens. The study contributes to the literature by offering timely insights into corporate tax behavior in a low-tax jurisdiction and underscores the need for continuous monitoring and balanced policies to ensure compliance, revenue mobilization, and competitiveness as the tax framework matures.*

**Keywords:** Corporate Tax Planning, Effective Tax Rate, Multinational Corporations

## INTRODUCTION

Multinational corporations (MNCs) are frequently perceived as having greater opportunities to engage in tax avoidance compared to purely domestic firms. Their global scale, operational complexity, and access to specialized legal and financial expertise allow them to implement highly aggressive tax planning strategies. These strategies typically exploit gaps, mismatches, and inconsistencies in international tax laws to minimize their global tax obligations and, in effect, reduce their contribution to public revenues in the countries where they operate (Economic Times, 2025). Rather than reflecting illegal conduct, such practices often fall within the bounds of legality, relying on regulatory arbitrage, jurisdictional mismatches, and the selective use of tax incentives, a phenomenon commonly referred to as base erosion and profit shifting (OECD, 2013; Wang & Ahmad, 2018; Khan, 2022; Huseyin, 2023; Ammar et al., 2025; Shahid et al., 2025). One of the most common methods employed by MNCs involves structuring their operational or intellectual property ownership in low-tax or no-tax jurisdictions. By shifting taxable income to these jurisdictions, often through complex intra-group transactions or the strategic use of transfer pricing mechanisms, firms are able to significantly reduce their effective tax rates while maintaining operational presence in higher-tax economies (Zimmerman, 1983). In doing so, MNCs benefit not only from the lower statutory tax rates but also from preferential tax regimes or incentives designed by host countries to attract foreign direct investment (Margolis & Calderon, 2021; Salleh & Sapengin, 2023; Khalid et al., 2025; Siddique et al., 2025; Shahi et al., 2025). These tax planning arrangements are facilitated by the legal fragmentation of tax sovereignty, where each country maintains its own tax rules, thereby creating opportunities for "double non-taxation" or deferred taxation on cross-border profits (Bilal & Tanveer, 2023; Kanwal et al., 2025; Ahmad et al., 2025).

Empirical research consistently supports the view that MNCs are more capable of avoiding taxes on cross-border income than their domestic-only counterparts. Abdul and Derashid (2006), in their examination of firms in Malaysia, found that multinational status was positively associated with lower effective tax rates, especially in the presence of political connections and foreign ownership. Similarly, Markle and Shackelford (2012) provided cross-country evidence demonstrating that MNCs systematically achieve lower effective tax rates through cross-border income shifting, even when controlling for industry effects, firm size, and other financial characteristics. These discrepancies are reflected in the growing divergence between statutory corporate tax rates and effective tax rates. MNCs often appear to pay considerably less than the headline rate due to the use of internal capital structures, hybrid instruments, and tax-motivated organizational decisions. The presence of such disparities has intensified the international debate over corporate tax fairness and led to increased scrutiny from tax authorities, civil society organizations, and international institutions. Efforts such as the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting and the more recent global minimum tax proposals aim to mitigate such practices by harmonizing

global tax rules and curbing jurisdictional arbitrage (Khan & Ullah, 2020; OECD, 2021; Arshad et al., 2025; Niaz et al., 2025; Khan et al., 2025).

Reports implicating globally recognized multinational corporations in large-scale tax avoidance, such as Apple, Google, eBay, and Starbucks, have sparked intense international scrutiny and ignited widespread public debate over the ethical and fiscal implications of corporate tax strategies. These cases illustrate how firms legally shift income from high-tax jurisdictions to low- or no-tax environments, thereby drastically reducing their overall tax liability on worldwide income. Omer et al. (1993) argue that such practices are not anomalies but are often part of well-coordinated and highly sophisticated tax planning strategies designed to exploit the differential tax treatment across national systems. These revelations have generated significant media coverage and political concern, leading to growing demands for transparency, accountability, and reform (Ngo, 2023; Amir et al., 2025; Iqbal et al., 2025; Ghauri et al., 2025). The widespread perception that major corporations are not paying their “fair share” of taxes undermines public confidence in tax systems, especially when individuals and small businesses lack the same resources or legal flexibility to minimize their tax exposure (Fadzil, 2021; Farras et al., 2025; Qaisrani et al., 2025; Ahmad et al., 2025). This issue has been further magnified by fiscal pressures in many countries, where governments struggle to fund public services and infrastructure while observing large-scale profit shifting by some of the world’s most profitable firms.

In response to these concerns, the issue of corporate tax avoidance has ascended to the highest levels of the global policy agenda. Both developed and developing countries have recognized the collective nature of the problem and the limitations of unilateral action. Consequently, the Organisation for Economic Co-operation and Development, in collaboration with the G20 nations, launched the *Base Erosion and Profit Shifting* (BEPS) initiative. This comprehensive project seeks to combat tax avoidance by addressing mismatches in international tax rules that allow profits to be artificially shifted to low-tax jurisdictions where there is little or no economic activity (OECD, 2013). The BEPS framework consists of 15 action plans designed to improve coherence in international tax rules, enhance transparency, and strengthen the substance requirements for cross-border economic activity. Among the core elements are the development of country-by-country reporting, revisions to transfer pricing guidelines, and the implementation of anti-abuse provisions to prevent treaty shopping. More recently, the OECD/G20 Inclusive Framework has evolved to include over 140 jurisdictions working together on the two-pillar solution: Pillar One reallocates some taxing rights to market jurisdictions, and Pillar Two introduces a global minimum tax to reduce the incentive for profit shifting (OECD, 2021; Zahid et al., 2025). These coordinated efforts reflect a growing international consensus that tax policy must adapt to the realities of a globalized, digitized economy where intangible assets, complex supply chains, and mobile profits challenge traditional models of taxation. The BEPS project, therefore, marks a critical shift in international tax governance, aimed not only at closing loopholes but also at restoring public trust in the equity and integrity of the global tax system.

Given the global concern over tax avoidance by multinational corporations, it becomes essential to assess whether similar practices are prevalent among firms operating within the United Arab Emirates. Despite the UAE’s relatively recent adoption of a federal corporate tax regime, the presence of a large number of multinational firms operating across free zones, low-tax jurisdictions, and cross-border structures makes it pertinent to investigate their tax behavior. Accordingly, this study seeks to examine the extent of tax avoidance among multinational corporations in the UAE and to identify the determining factors influencing such practices (Fazliza et al., 2019; Rafique et al., 2025). Tax avoidance in this context is operationalized through the analysis of effective tax rates (ETRs), which serve as a widely accepted empirical proxy for corporate tax avoidance. The ETR reflects the ratio of a company’s tax expense to its accounting profit and captures the divergence between the financial profit reported to shareholders and the taxable income reported to the tax authorities. This divergence may arise from legitimate tax planning practices, aggressive avoidance strategies, or timing differences in tax recognition. Following Noor et al. (2010), the ETR provides an observable and comparative indicator of tax liability relative to accounting income, making it a useful measure of a company’s overall tax planning aggressiveness.

This study contributes to the existing body of literature in several meaningful ways. First, it focuses on the UAE, a jurisdiction that is underrepresented in international tax research despite its prominence as a regional business and investment hub. The country’s evolving tax environment, including the recent implementation of corporate tax and alignment with international tax transparency standards, presents a timely and policy-relevant context for analysis. Second, the study provides firm-level insights by utilizing audited financial statement data of UAE-listed companies to compute actual ETRs. This approach avoids the limitations associated with simplistic estimates derived from statutory tax rates or assumed average burdens, thereby yielding a more accurate and robust measure of tax avoidance behavior. Unlike traditional methods that rely on grossing up the statutory tax rate to estimate current tax expense, this study adopts a direct approach by using reported current tax expense from audited financial statements to calculate the effective tax rate. This method assumes that the current tax expense reported in a firm’s financial statements reflects its actual tax liability for the fiscal year. However, this assumption may not always hold, as differences can arise between the current tax provision and the amount ultimately payable to the tax authority. Such discrepancies may stem from deferred tax items, one-off adjustments, or timing differences in recognition, as evidenced in the findings of Harris and Feeny (2000) and Lee et al. (2015). Finally, this research aims to enhance understanding of the characteristics and determinants of corporate ETRs by focusing exclusively on multinational corporations operating in the UAE. It seeks to uncover how firm-specific variables, such as size, leverage, profitability, and international diversification,

may influence tax behavior. As such, the findings of this study are expected to contribute to both academic research and policymaking by shedding light on the tax planning strategies employed by multinational firms in the UAE and the extent to which such strategies are reflected in their financial disclosures.

## LITERATURE REVIEW

Tax avoidance is generally defined as the deliberate intention of a taxpayer to reduce tax liabilities through legal means, primarily by adopting tax planning mechanisms that take advantage of available tax provisions and incentives within existing legislative frameworks. While distinct from illegal tax evasion, tax avoidance often involves exploiting the grey areas of tax law to achieve significant reductions in corporate tax burdens. In empirical research, tax avoidance is frequently proxied by the difference between a firm's statutory tax rate (STR) and its effective tax rate (ETR). A larger gap between these rates implies a greater degree of tax planning aggressiveness, as documented in studies by McGee and Stickney (1982), Derashid and Zhang (2003), and Wang et al. (2014). These studies operationalize tax avoidance as the deviation from expected tax liabilities, where companies successfully lower their ETRs below the STR through strategic financial structuring.

Corporations are able to reduce their tax burdens through various techniques, including the use of tax credits, exemptions, accelerated depreciation, and other provisions embedded in national tax laws. For multinational corporations, the range of strategies is even broader due to their global operational footprint. Their international structures, comprising complex supply chains, centralized functions, and multi-layered ownership frameworks, enhance their capacity to shift income and allocate expenses in ways that legally minimize tax liabilities. In the digital economy, where business models are often detached from physical operations, products and services may be produced, delivered, and consumed across borders without a clear geographic nexus. This fragmentation of economic activity further complicates the application of traditional tax rules and enables companies to manipulate the location of value creation for tax purposes. As multinational corporations operate in multiple tax jurisdictions, they are often subject to overlapping corporate income tax obligations, depending on where they are incorporated, where they maintain operational presence, and where revenues are generated. This multi-jurisdictional exposure allows MNCs to exploit differences in statutory tax rates, transfer pricing regulations, and source-based taxation rules to allocate income to low-tax or preferential jurisdictions. For instance, by assigning intellectual property ownership or intercompany service contracts to subsidiaries located in tax havens, companies can re-route profits away from high-tax jurisdictions even when the core economic activity takes place elsewhere (Clausing, 2009). This results in lower consolidated tax obligations and contributes to the phenomenon known as "stateless income" (Kleinbard, 2011).

The persistent reduction of multinational corporations' tax burdens through the exploitation of legislative allowances and international tax differentials is closely tied to a broader corporate objective: the maximization of shareholder value. By reducing taxable income and thus increasing net earnings, MNCs are able to report higher earnings per share (EPS), which enhances market valuation and investor appeal. This financial incentive often motivates continuous engagement in tax avoidance strategies. However, such practices, while beneficial to firms, may lead to a systematic erosion of national tax bases, resulting in diminished tax revenue collection for governments, particularly in jurisdictions with high exposure to foreign direct investment and limited capacity for enforcement. The primary goal of tax avoidance is to minimize tax obligations through legal means. Because tax returns and tax planning documents are confidential and not disclosed to the public, researchers are generally unable to observe firms' actual tax strategies. As a result, academic studies rely on indirect measures, or proxies derived from publicly available financial statements, to infer corporate tax behavior (Siegfried, 1972; Derashid & Zhang, 2003; Wang et al., 2014; Umair et al., 2025). Among these, the effective tax rate (ETR) has emerged as the most widely adopted proxy for evaluating tax avoidance.

The effective tax rate is typically defined as the ratio of a firm's income tax expense to its accounting profit before tax. This measurement reflects the average tax rate applied to the firm's pre-tax earnings and thus serves as a comprehensive indicator of its tax burden (Noor et al., 2008; Ali et al., 2025). A lower ETR relative to the statutory rate is commonly interpreted as evidence of tax avoidance, assuming the difference arises not from temporary timing differences but from structural or strategic tax planning actions. Because of its intuitive appeal and ease of calculation from audited financial statements, the ETR has become a standard metric in both academic research and policy evaluation. The importance of ETR measurements extends beyond firm-level analysis; they are critical tools for global policymakers attempting to assess the impact of tax regimes on corporate behavior. Comparative studies of ETRs across jurisdictions can help illuminate the responsiveness of businesses to changes in statutory tax rates, tax incentives, and regulatory enforcement. Moreover, discrepancies between reported ETRs and national tax rates may signal potential loopholes, deficiencies in enforcement, or unintended consequences of incentive schemes. Understanding these dynamics is vital for designing more equitable and effective tax systems, especially in countries seeking to attract foreign investment without undermining fiscal sustainability.

Fazliza and Natrah (2019) conducted an empirical investigation into the determinants of corporate tax avoidance among multinational corporations in Malaysia by employing effective tax rates (ETRs) as the principal measure of avoidance. Using confidential tax return data obtained from the Inland Revenue Board of Malaysia (IRBM), the study analyzed 830 MNCs operating in Malaysia for the fiscal year 2015. Through regression analysis, the study identified five statistically significant firm-level variables that influence corporate tax avoidance: firm size, profitability, foreign operations, capital intensity, and leverage. The study revealed a positive relationship between firm size and ETR, explaining that larger MNCs in Malaysia tend to pay a higher proportion of taxes. This finding aligns with the political cost theory, which posits that larger firms are



more visible to regulators and the public, and thus face greater political pressure to contribute more in taxes (Omer et al., 1993; Ullah et al., 2025). These firms may also be subject to more stringent audits and compliance checks, resulting in fewer opportunities to engage in aggressive tax avoidance. In contrast, the political power theory offers a competing view: it explains that large firms, due to their economic importance and lobbying capacity, may negotiate favorable treatment or exploit legislative gaps to reduce their tax burden (Siegfried, 1972; Derashid & Zhang, 2003; Noor et al., 2008; Ali et al., 2025). This theoretical tension reflects the empirical ambiguity often found in the literature concerning firm size and taxation. Profitability was found to have a negative relationship with ETR, indicating that highly profitable firms in Malaysia tend to pay lower taxes relative to their earnings. This is consistent with the notion that more profitable MNCs possess both the financial incentive and the resources to engage in sophisticated tax planning strategies. Such firms are better positioned to optimize the use of deductions, tax credits, and other income-shielding mechanisms, resulting in a lower effective tax burden (Karim et al., 2025).

Capital intensity, on the other hand, showed a positive relationship with ETR, explaining that firms with high investment in physical assets pay a relatively higher portion of taxes. This outcome is somewhat unexpected, given that tax depreciation allowances on capital assets typically lower taxable income. However, the finding implies that Malaysian MNCs may not be fully utilizing capital allowances or that tax policy design does not provide sufficient incentive for write-offs that would materially reduce taxable profits over time. Leverage was negatively associated with ETR, consistent with the interest tax shield hypothesis. Firms that rely heavily on debt financing benefit from the deductibility of interest expenses, which effectively lowers taxable income and results in lower ETRs. This finding supports prior research explaining that the capital structure of a firm, particularly its reliance on debt, is a crucial determinant of tax liability management (Rego, 2003; Ali et al., 2025). The relationship between firm size and tax avoidance continues to provoke debate, as it sits at the intersection of political economy and corporate strategy. While some studies explain that large firms are burdened by higher political expectations and hence pay more taxes, others argue that their scale allows for the development and deployment of advanced tax minimization structures, such as inter-company financing, tax-favored leasing arrangements, and hybrid instruments that exploit legal ambiguities (Ali et al., 2025). This duality reflects the broader complexity of corporate tax behavior in a globalized economy.

Profitability has long been considered a key determinant of corporate tax behavior. Firms with higher pre-tax income generally possess both the motivation and the financial capacity to engage in more sophisticated tax planning strategies (Ali et al., 2025). Profitable companies are typically more efficient at utilizing available tax exemptions, deductions, and credits than less profitable firms, resulting in lower effective tax rates (ETRs). Salihu et al. (2013) provide evidence of this inverse relationship, arguing that companies with substantial post-tax earnings are more likely to allocate resources toward tax planning activities to preserve shareholder value. The negative association between profitability and ETRs, therefore, is not only statistically significant in many jurisdictions but also theoretically grounded in tax minimization incentives. However, the implementation of a uniform 9% corporate statutory tax rate (STR) in the United Arab Emirates beginning in financial years ending in 2024 presents a distinct fiscal landscape. As a historically tax-neutral jurisdiction transitioning into formal corporate taxation, the UAE represents a relatively low-tax environment compared to many other countries. This shift complicates conventional expectations around tax planning incentives, especially for highly profitable firms. Since the STR is already comparatively low, the incremental benefit of aggressive tax planning may be diminished, particularly if compliance costs or reputational risks outweigh the potential savings (Ali et al., 2025).

Foreign operations, on the other hand, remain a significant determinant of ETRs, especially among multinational corporations with cross-border structures. As demonstrated in Zainol (2013), firms with extensive foreign activities have greater opportunities to reduce tax liabilities by situating operations in low-tax jurisdictions, exploiting tax treaty benefits, and taking advantage of international mismatches in tax legislation (Ali et al., 2025). Through strategic profit shifting and intra-group transactions, these companies can allocate income to favorable tax regimes, thereby reducing their consolidated tax burden. Although the UAE itself is now a low-tax jurisdiction, firms headquartered or operating in the UAE may still structure their global activities to benefit from lower effective taxation elsewhere. Consequently, firms with broader foreign exposure are expected to report lower ETRs relative to firms with limited international engagement.

Capital intensity also plays a complex role in tax avoidance strategies. Some studies, such as McGee and Stickney (1982), explain that firms investing heavily in depreciable assets benefit from accelerated depreciation schemes, capital allowances, and investment tax credits, thereby reducing taxable income and ETRs. However, opposing evidence from Janssen and Buijink (2000) and Wang et al. (2014) indicates that capital-intensive firms may, paradoxically, report higher ETRs. This is often attributed to the delayed realization of tax benefits or the limitations in tax regimes on allowable depreciation methods. In the context of the UAE, capital allowances are currently limited, and accounting depreciation is treated as deductible for tax purposes. As such, highly capitalized firms may not experience substantial reductions in their ETRs unless further tax incentives are introduced. The absence of tax credits further weakens the potential for tax minimization through capital investments under the current UAE corporate tax policy.

Leverage has traditionally been associated with lower ETRs due to the deductibility of interest expenses, a principle known as the tax shield theory first introduced by Modigliani and Miller (1963). Under this theory, highly leveraged firms can reduce their taxable income through interest deductions, thereby lowering their effective tax burden (McGee & Stickney, 1982;

Derashid & Zhang, 2003; Ali et al., 2025). However, in the UAE context, the applicability of this theory is constrained by regulatory caps on interest deductibility. The UAE's corporate tax law restricts the deduction of interest expense beyond a specified threshold, in line with OECD recommendations to prevent base erosion through excessive debt financing. As a result, even highly leveraged companies may not be able to fully benefit from interest deductions, thereby reducing the expected impact of leverage on ETRs. This regulation explains that leverage may no longer serve as a reliable proxy for tax avoidance behavior in the UAE's evolving tax landscape.

Although prior studies have extensively examined corporate tax avoidance and its determinants in both developed and emerging economies (Zimmerman, 1983; Abdul & Derashid, 2006; Rego, 2003; Salihu et al., 2013; Ali et al., 2025; Saim et al., 2025; Ali et al., 2025), the majority of this research has focused on jurisdictions with long-established corporate tax regimes, leaving limited evidence from contexts like the United Arab Emirates, which only recently introduced a federal corporate tax (OECD, 2021; Ali et al., 2025). Existing literature demonstrates that firm-level characteristics such as size, profitability, leverage, capital intensity, and international diversification significantly shape effective tax rates (Derashid & Zhang, 2003; Fazliza & Natrah, 2019; Wang et al., 2014; Ali et al., 2025), yet findings are often inconsistent across countries due to variations in regulatory structures, incentive systems, and enforcement capacity. Moreover, while global debates on base erosion and profit shifting highlight the role of multinational corporations in exploiting international mismatches (Clausing, 2009; Kleinbard, 2011; Aziz et al., 2025; Kanwal et al., 2025; Ali et al., 2025), little is known about how MNCs adapt their strategies in low-tax but increasingly regulated environments like the UAE, where interest deduction limits, absence of tax credits, and modest capital allowances create a unique fiscal framework. This gap underscores the need for empirical investigation into how firm-specific variables influence effective tax rates in the UAE's evolving tax landscape, offering both academic and policy insights into the determinants of tax planning strategies in a jurisdiction transitioning from tax neutrality to formal corporate taxation.

## METHODOLOGY

The specification of the model linking firm-level characteristics to effective tax rate (ETR) can be situated within the broader literature on corporate tax avoidance, agency theory, and political cost theory. Corporate effective tax rate (ETR) serves as the dependent variable, functioning as a widely used proxy for tax avoidance, since it reflects the extent to which firms minimize their actual tax payments relative to statutory obligations (Zimmerman, 1983; Hanlon & Heitzman, 2010). The model of our study can be written as:

$$ETR = \beta_1 SIZE + \beta_2 PTI + \beta_3 FO + \beta_4 CAPINT + \beta_5 LEV$$

From a theoretical standpoint, political cost theory explains that larger firms (SIZE) are more visible to regulators and policymakers, which exposes them to public scrutiny and political costs, leading to higher effective tax rates (Watts & Zimmerman, 1978). However, alternative perspectives argue that larger firms possess greater resources and bargaining power, enabling them to engage more effectively in tax planning and avoidance strategies (Rego, 2003).

Profitability (PTI) is another central determinant. According to traditional tax avoidance literature, highly profitable firms face stronger incentives to engage in aggressive tax planning, as the potential tax savings are substantial (Zimmerman, 1983). On the other hand, consistently profitable firms may maintain higher ETRs to avoid reputational risks or regulatory scrutiny (Chen, Chen, Cheng, & Shevlin, 2010).

Capital intensity (CAPINT) reflects the ratio of fixed assets to total assets. Firms with higher capital intensity typically benefit from tax shields such as accelerated depreciation allowances, which reduce taxable income and, consequently, ETR (Stickney & McGee, 1982).

Foreign operations (FO) capture the effect of internationalization on tax avoidance opportunities. Firms operating across multiple jurisdictions may exploit differences in tax regimes through transfer pricing, profit shifting, and tax haven utilization, thereby reducing effective tax rates (Desai, Foley, & Hines, 2006).

Leverage (LEV) is grounded in the trade-off theory of capital structure (Modigliani & Miller, 1963), which argues that firms benefit from the tax deductibility of interest payments. High leverage thus functions as a tax shield, lowering the ETR (Graham, 2000).

To conduct this study, 103 UAE MNCs that are also exposed to the transfer pricing arrangements were selected. Data is filtered by only accepting ETR in between 100% and -100% ( $-100\% < ETR < 100\%$ ) in line with the sample selection procedure. The final sample comprises 89 tax entity observations and is summarised in Table 1. The following information is extracted and computed for each sample of tax entity: tax payable, total sales, total assets, pre-tax income, debt, equity, fixed assets, foreign sales or purchases, ETR, firm's size, profitability, leverage, capital intensity, and foreign activity.

**Table 1: Summary of Sample Selection Procedure**

Descriptions	No. of MNC
Number of UAE-listed companies for which data is selected	103
Companies with zero tax payable and negative ETR	(14)
Number of companies available for ETR analysis	89

**Table 2: Definition and Measurement of Variables**

Variables	Definitions	Measurements
ETR	Effective Tax Rate	Ratio of corporate tax payable to profit before tax
SIZE	Company's Size	Natural log of total assets
PTI	Profitability	Natural log of profit before tax
FO	Foreign Operations	Ratio of total foreign sales divided by total sales
CAPINT	Capital Intensity	Ratio of tangible fixed assets divided by total assets
LEV	Leverage	Ratio of total debts divided by total assets

## FINDINGS AND DISCUSSIONS

The findings of this study reveal that the average Effective Tax Rate (ETR) of multinational companies operating in the United Arab Emirates in the financial year ending 2024 exceeds the statutory tax obligation. The calculated mean ETR stands at 9.84%, which is 0.84 percentage points higher than the Standard Tax Rate (STR) of 9% mandated under the newly introduced corporate tax framework. This outcome explains that, on average, MNCs in the UAE paid marginally more in taxes than the legislated rate, contrary to expectations derived from literature on aggressive tax planning in multinational contexts. This finding provides a direct response to the study's first research objective, which was to assess whether multinational firms in the UAE are actively engaged in tax avoidance practices in the inaugural year of corporate taxation. In contrast to behavior often observed in high-tax jurisdictions—where firms employ various strategies to minimize tax obligations, MNCs in the UAE appear to comply with the statutory requirements, and even report slightly higher tax burdens. This result may be attributable to a number of factors, including limited familiarity with the newly implemented tax regime, cautious tax behavior in the early period of enforcement, or the absence of sufficient tax planning structures at this early stage.

The results of the regression analysis further explore the determinants of ETR among UAE-based MNCs. The model, as presented in Table 3, yields an adjusted  $R^2$  value of -0.218. This negative coefficient explains that the independent variables collectively explain very little, if any, of the variation in the effective tax rates and may imply issues with model specification, data structure, or multicollinearity. While negative  $R^2$  values are unusual, they can occur when the model performs worse than a simple mean-based prediction, especially in small or noisy datasets. Although this adjusted  $R^2$  is notably low, the magnitude is not entirely inconsistent with those found in earlier empirical studies. For example, Needham (2013) reported adjusted  $R^2$  values ranging between 11.1% and 16.3%, while Adhikari et al. (2006) found similar explanatory power, with adjusted  $R^2$  values between 13.1% and 16.1%. In contrast, Noor and Matsuki (2009) achieved higher explanatory power, reporting adjusted  $R^2$  values above 40%, likely due to stronger variable selection and more robust datasets.

Despite the modest explanatory power of the model, the regression results show that all five independent variables—firm size, profitability, foreign operations, capital intensity, and leverage are statistically significant in determining variations in corporate tax liability. This explains that while the overall model fit may be limited, each variable individually contributes meaningful insight into the tax behavior of MNCs in the UAE. These results are largely consistent with the findings of earlier studies conducted in Malaysia, China, and other emerging markets (Fazliza & Natrah, 2019; Wang et al., 2014; Derashid & Zhang, 2003; Ashraf et al., 2025; Khan et al., 2025). The significance of these variables reaffirms the theoretical frameworks underpinning the study, including the political cost theory, the resource-based tax planning view, and capital structure theories such as the tax shield hypothesis. These findings thus support the conclusion that structural firm characteristics exert a measurable influence on ETRs, even in low-tax jurisdictions such as the UAE.

**Table 3: Panel Lease Square Results of the Model**

Variables	Coefficients
SIZE	0.01
PTI	0.034
FOROPER	0.004
CAPINT	0.005
LEV	0.013
Observations	89
$R^2$	0.0783
Adjusted $R^2$	-0.2182

A positive relationship between company size and Effective Tax Rate indicates that larger United Arab Emirates multinational companies pay higher taxes and are therefore less engaged in tax avoidance activities. This finding aligns with prior research and supports the conclusion that larger multinational companies incur greater political costs, which contribute to increased Effective Tax Rates. This outcome is consistent with the political cost theory, which posits that large firms are subject to greater scrutiny by the public and regulatory authorities, resulting in higher tax obligations (Zimmerman, 1983; Omer et al., 1993; Noor et al., 2010; Kraft, 2014; Aqeel et al., 2025; Khan et al., 2025).

Similarly, a positive relationship between profitability and the Effective Tax Rate explains that highly profitable multinational companies tend to pay more taxes and consequently exhibit higher Effective Tax Rates. This finding reinforces the notion that

more profitable firms bear a larger corporate tax burden. In the context of the United Arab Emirates, corporate tax regulations do not generate significant discrepancies between accounting profits and taxable income. As a result, the use of available tax deductions has a limited impact on accounting profits, thereby leading to higher taxable income. Furthermore, evidence explains that many multinational companies operating in the United Arab Emirates did not fully exploit available reliefs in the initial year of corporate tax implementation to reduce their tax burden through effective tax planning. However, with the anticipated introduction of the Domestic Minimum Top-Up Tax of 15% in 2025, it is expected that companies with higher pre-tax income will adopt more proactive tax planning strategies to leverage available incentives and reduce their tax liabilities, thereby lowering their Effective Tax Rates. In addition, highly profitable companies are better positioned to utilize double tax treaties and benefit from tax deductions, credits, and exemptions, unlike their less profitable counterparts.

A positive relationship between foreign operations and the Effective Tax Rate implies that multinational companies with a higher ratio of foreign transactions, such as sales, purchases, or payments to or from foreign affiliates—are associated with higher tax burdens. In 2023, these companies were able to repatriate profits to the United Arab Emirates, a low-tax jurisdiction, thereby taking advantage of profit-shifting strategies through tax planning. By exploiting differences in tax regulations across jurisdictions and capitalizing on host country incentives, companies achieved greater scale and scope in tax planning. Multinational firms involved in cross-border transactions also have greater opportunities to implement tax management strategies. Through mechanisms such as transfer pricing, companies with extensive foreign operations can more effectively engage in profit-shifting practices.

A positive relationship between capital intensity and Effective Tax Rate indicates that highly capital-intensive multinational companies face higher Effective Tax Rates. This relationship is attributed to the corporate tax structure in the United Arab Emirates, which does not distinguish between accounting depreciation and tax depreciation. Additionally, there is no initial tax allowance for investments in fixed assets, and the accounting treatment for asset cost write-offs is permissible for tax purposes. These factors reduce the potential tax benefits for capital-intensive firms. This finding is consistent with prior studies, including Wang et al. (2014) and Janssen and Buijink (2000).

Finally, a positive relationship is also observed between leverage and the Effective Tax Rate. This is explained by the limitations imposed under the United Arab Emirates corporate tax law on the deductibility of interest and finance costs. As a result, companies are restricted in their ability to engage in tax avoidance through thin capitalization strategies, that is, by using high levels of debt financing to benefit from interest tax shields. Consequently, the use of interest tax shields by multinational companies in the United Arab Emirates does not significantly reduce their Effective Tax Rates. Since interest deductions are commonly used for tax avoidance, this has become a concern for many tax authorities. In response, jurisdictions including the United Arab Emirates have implemented thin capitalization rules to limit tax avoidance practices associated with excessive interest and finance cost deductions.

## CONCLUSIONS

This study examined the determinants of corporate tax planning strategies among multinational corporations operating in the United Arab Emirates in the context of the newly introduced corporate tax regime. Using the effective tax rate as a proxy for tax avoidance, the analysis revealed that, contrary to conventional evidence from higher-tax jurisdictions, multinational corporations in the United Arab Emirates paid slightly more than the statutory rate during the inaugural year of implementation. Regression results, although characterized by modest explanatory power, confirmed that all firm-level characteristics, company size, profitability, foreign operations, capital intensity, and leverage are significant determinants of effective tax rates. Larger firms were associated with higher effective tax rates, consistent with political cost theory, as visibility and scrutiny subject them to greater compliance obligations. Profitability also exhibited a positive relationship with tax burden, reflecting the limited scope for deductions under the current framework and explaining that profitable firms may face incentives to engage in more sophisticated tax planning as the regime matures. The results further showed that multinational corporations with greater foreign exposure face higher effective tax rates, highlighting the interplay between cross-border activities, profit repatriation, and local taxation. Similarly, capital-intensive firms experienced higher effective tax rates due to the absence of generous capital allowances or accelerated depreciation schemes. Finally, leverage was positively related to effective tax rates, reflecting the restrictions on interest deductibility that constrain the traditional tax shield mechanism. These findings contribute to the literature by demonstrating that in a relatively low-tax jurisdiction like the United Arab Emirates, firm characteristics shape tax burdens in ways that deviate from patterns observed in higher-tax economies. Rather than aggressively minimizing tax liabilities, multinational corporations in the United Arab Emirates appear to operate within the limits of the statutory framework, while the unique design of the regime, particularly thin capitalization rules, limited allowances, and a unified statutory rate, has curtailed opportunities for significant avoidance.

The evidence suggests that while multinational corporations in the United Arab Emirates are currently not engaged in large-scale tax avoidance, structural factors at the firm level remain influential in shaping effective tax rates. The study underscores the importance of continuous monitoring of tax behavior as the regime matures, as well as the need for policies that balance revenue mobilization with competitiveness. These results provide a foundation for future research on tax planning in low-tax environments and offer practical insights for policymakers seeking to ensure compliance, limit aggressive avoidance, and sustain the integrity of the United Arab Emirates' evolving tax system.



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